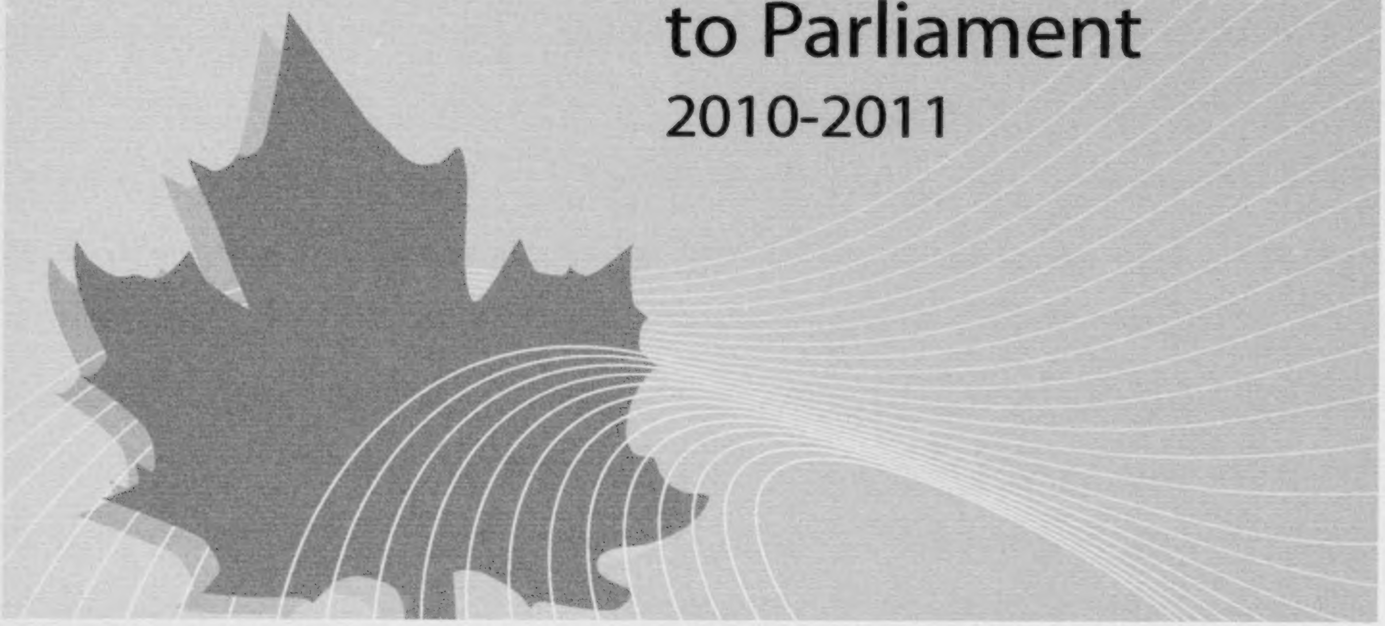
Annual Report to Parliament

2010-2011



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Canada Revenue Agency
Agence du revenu du Canada

Canada

ABOUT THE CRA

OUR MISSION

To administer tax, benefits, and related programs and to ensure compliance on behalf of governments across Canada, thereby contributing to the ongoing economic and social well-being of Canadians.

WHO WE ARE

The Canada Revenue Agency (CRA) administers income tax, goods and services tax/harmonized sales tax (GST/HST), and other taxes, and is the principal revenue collector in the country. We also distribute benefit payments to millions of Canadians.

We strive to ensure that Canadians:

- pay their required share of taxes;
- receive their rightful share of entitlements; and
- are provided with an impartial and responsive review of contested decisions.

OUR FOUNDATION OF TRUST

Building on our foundation of trust is critical to achieving our mandate. Trust begins with the CRA values that reflect our principles and beliefs and guide our behaviour and practices.

Trust is sustained by our focus on maintaining a fair, open, and transparent tax and benefits administration that serves Canadians with a high degree of accuracy, consistency, and impartiality.

OUR CONTRIBUTION TO THE SOCIAL AND ECONOMIC WELL-BEING OF CANADA

A well-functioning tax and benefit system is essential to a healthy economy, a sustainable infrastructure, and a strong democracy.

Some of the tax revenue we collect is redistributed to taxpayers in the form of benefit payments or tax credits. Other tax revenue is provided to our federal, provincial, territorial, and First Nations government clients to finance their programs and services for Canadians.

MESSAGE FROM THE MINISTER

Most Canadians give little thought to tax collection, other than at tax time each spring, yet every day the work of the Canada Revenue Agency (CRA) has a direct impact on our lives and livelihoods. Governments across Canada depend on the CRA to collect revenue needed to pay for a vast range of social and economic programs and benefits that sustain our high standard of living and quality of life.

Through its unparalleled service to Canadians, the CRA helps us understand and meet our tax responsibilities. Along with firm enforcement measures that discourage non-compliance, such as those aimed at individuals and businesses participating in the underground economy or attempting to avoid taxes through aggressive tax planning, the CRA works to ensure that everyone pays their fair share. Protecting Canada's revenue base is particularly important in these economically challenging times, when governments must exercise fiscal restraint while continuing to meet the needs and expectations of Canadians.

The Government of Canada is committed to helping hard-working Canadians save money wherever they can. We have introduced important new tax relief measures under the next phase of our Economic Action Plan. These measures, aimed at individuals, families and businesses, include the Children's Arts Tax Credit, the Working Income Tax Benefit, the Canada Employment Credit, the First Time Home Buyers Tax Credit, and the Volunteer Firefighter Tax Credit. Thanks to these and ongoing tax relief programs, the average family of four now receives $3,000 in extra tax savings. In fact, the federal tax burden is at an all-time low in Canada, the lowest level in more than a half a century. I encourage people to visit the CRA Web site to learn more about these tax savings so they can take full advantage of them.

The CRA *Annual Report to Parliament 2010-2011* highlights the many ways the organization is constantly improving, evolving and expanding its core business to secure the ongoing economic and social well-being of Canadians. Since being named Minister of National Revenue, I have had the pleasure to witness this progress for myself. The CRA consistently demonstrates that it is a world-class tax and benefit administrator that provides value to its government clients, and a fair and accessible revenue collector in whom Canadian taxpayers can confidently put their trust.

I am proud to table this annual report, which clearly illustrates that the CRA makes a meaningful difference in the lives of all Canadians.

Gail Shea

The Honourable Gail Shea, P.C., MP
Minister of National Revenue

FOREWORD BY THE CHAIR

This year was, again, a challenging one for the Board and the CRA, which was marked by an environment of intense economic constraint. While working collaboratively with senior management to ensure that the CRA achieved its priorities and delivered on its mandate, the Board monitored and reviewed the CRA's planned resource allocations and spending to ensure the most effective and efficient use of its resources. The Board also oversaw the development of the CRA's Strategic Investment Plan.

The Board's annual strategic planning meeting, which included members of the Agency's Management Committee, was an opportunity to focus on key strategic discussions regarding issues facing the CRA. In 2010-2011, the Board reviewed and approved important horizontal strategies and policy instruments in support of Human Resources (HR) and Information Technology (IT), with IT sustainability remaining very important to the Board given it is the engine for service delivery to Canadians and for CRA programs administration. Sound succession planning remained a focus for the Board, most particularly for the executive cadre; the Agency Strategic Workforce plan illustrates the integration of business and HR planning in CRA strategic plans, a sound business practice stressed by the Board.

Recognizing the importance of a robust risk regime, particularly in this era of financial constraints, the Board continued to monitor the progress of the CRA's enterprise risk management regime, including the implementation of an effective governance structure and the integration of risk in all business planning activities.

In 2010-2011, the Board continued to enhance the Board of Management Oversight Framework (BoMOF), with emphasis placed on more results-based evidence to assess the Agency's performance. The Board also stressed the importance of strengthening CRA's overall performance measurement regime.

While being a mature and productive Board, we continued to refine our own governance practices and effectiveness with a view of balancing our fiduciary responsibilities with even more strategic contributions to the CRA's vision for the future.

On behalf of the CRA Board of Management, I am pleased to recommend this report to the Minister of National Revenue, the Honourable Gail Shea, for tabling in Parliament.

Susan J. McArthur
Chair, Board of Management

A MESSAGE FROM THE COMMISSIONER AND CHIEF EXECUTIVE OFFICER

The Canada Revenue Agency (CRA) makes a major contribution to Canada's economy and the social well-being of Canadians. We administer taxes for federal, provincial, territorial, and First Nations governments, and also help to advance governments' social goals through our administration of benefit programs that increase the standard of living of many Canadians. Our reputation as a world-class tax and benefits administration is well-earned and we are proud of our accomplishments over the past year.

During 2010-2011, the CRA continued to focus on ensuring the integrity of Canada's tax and benefits systems through initiatives designed to promote compliance with tax legislation, to strengthen services for individuals and business to make compliance easier, and to put in place ways that make non-compliance more difficult. Our work to expand outreach to selected groups of Canadians through electronic means is an important step toward improved voluntary compliance while increased opportunities for taxpayers to interact with the CRA through electronic means is a way that we are strengthening our services. To ensure that individuals were aware of, and could apply or register for, their entitlements to benefits and credits, we ensured that taxpayers had access to information they needed.

To make non-compliance more difficult, we undertook actions to counter aggressive tax planning schemes and underground economic activity. Among our most notable achievements this past year was our timely and efficient implementation of the Harmonized Sales Tax (HST) for the provinces of Ontario and British Columbia. The CRA will continue to administer the HST in BC until the transition back to GST in that province. Another noteworthy undertaking during 2010-2011 was our participation in an international tax benchmarking exercise, which saw selected CRA results compared with nine other Western tax administrations. This study revealed that the CRA has in place many of the leading practices in tax administration, and is often in the top ranking for cost effectiveness. I was particularly pleased to see that the CRA's debt collection function achieved top results. We will carefully review opportunities revealed to further enhance our effectiveness.

As we move forward, we are cognizant of the evolving economic environment; in particular, the government's priority to restore budgetary balance, in part by asking all federal government departments and agencies to contain costs. We have set in motion a plan to respond quickly and responsibly to this directive in order to maintain our core business while making prudent investments to sustain our operations over the longer term.

In submitting this report to the Minister for tabling to Parliament, I would like to extend my sincere thanks for the dedication, knowledge, and professionalism of the staff of the CRA, qualities that will enable us to continue to deliver quality results that matter to Canadians.

L. Lizotte-MacPherson.

Linda Lizotte-MacPherson
Commissioner and Chief Executive Officer
Canada Revenue Agency

Auditor General of Canada
Vérificateur général du Canada

AUDITOR GENERAL'S ASSESSMENT

of Performance Information
in the Canada Revenue Agency's 2010-2011 Annual Report to Parliament

REVIEW ENGAGEMENT REPORT

To the Commissioner and the Board of Management of the Canada Revenue Agency and the Minister of National Revenue

What I Assessed

As required by the *Canada Revenue Agency Act*, I have assessed the fairness and reliability of the Canada Revenue Agency's performance information for 2010-2011 with respect to the objectives established in its 2010-2011 to 2012-2013 corporate business plan.

Management's Responsibility

The performance information reported in the Agency's annual report and the objectives established in its corporate business plan are the responsibility of management.

My Responsibility

My responsibility is to assess the fairness and reliability of the performance information included in the Agency's annual report against the objectives established in its corporate business plan. My assessment did not include a review of the objectives set out in the corporate business plan or the Agency's actual performance.

My assessment covered only the performance information included in Chapters 1 through 5 of the Agency's annual report, on pages 13 to 60. My assessment did not include the information referenced by Web links included in the report.

The Nature of My Assessment

My assessment consisted of a review performed in accordance with Canadian generally accepted standards for review engagements established by the Auditing and Assurance Standards Board (AASB) and, accordingly, consisted primarily of enquiry, analytical procedures, and discussion related to the Agency's performance information as supplied to me by the Agency. I conducted this assessment using the criteria for the assessment of fairness and reliability described in the Annex.

My assessment is based on a review which provides a moderate level of assurance and does not constitute an audit. Consequently, I do not express an audit opinion on the Agency's performance information.

Conclusion

Based on my assessment, nothing has come to my attention that causes me to believe that the Agency's performance information for 2010-2011, with respect to the objectives established in its corporate business plan, is not, in all significant respects, fair and reliable using the criteria described in the Annex to this report.

John Wiersema, FCA
Interim Auditor General of Canada

27 September 2011
Ottawa, Canada

Annex

CRITERIA FOR THE ASSESSMENT OF FAIRNESS AND RELIABILITY
OFFICE OF THE AUDITOR GENERAL OF CANADA

The following criteria were developed to assess the fairness and reliability of the information about the Agency's performance with respect to the objectives in its corporate business plan. Two key issues were addressed: Has the Agency reported on its performance with respect to its objectives? Is that information fair and reliable? Performance information with respect to objectives is fair and reliable if it enables Parliament and the public to judge how well the entity or program in question is performing against the objectives it set out to accomplish.

FAIRNESS

RELEVANT	The performance information reports in context, tangible, and important accomplishments against objectives and costs.
MEANINGFUL	The performance information describes expectations and provides benchmarks against which performance is compared
ATTRIBUTABLE	The performance information demonstrates why the program made a difference.
BALANCED	A representative and clear picture of performance is presented, which does not mislead the reader.

RELIABILITY

RELIABLE	The performance information adequately reflects the facts.

These criteria were developed specifically for the assessment. The Canada Revenue Agency has acknowledged that they were suitable for the assessment.

More information on the criteria is available on our Web site at http://www.oag-bvg.gc.ca/internet/English/meth_gde_e_10217.html

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CHAPTER 1

OVERVIEW

ABOUT THIS REPORT

The Canada Revenue Agency (CRA) was created to be an effective tax and benefits delivery system for federal and provincial governments in Canada. In response to the requirements of the legislation governing the CRA, this report guides the reader through a comprehensive discussion of our achievements during the 2010-2011 fiscal year, with a focus on the most important aspects of our core tax and benefits business. Based on the Strategic Framework found on page 17, we gauge our success in achieving our outcomes by presenting our accomplishments during the fiscal year and the 2010-2011 results for the performance indicators found at the end of each chapter.

The *Annual Report to Parliament 2010-2011* introduces a new approach to providing Parliament and Canadians with an assessment of the results achieved by the CRA. For the first time, we are using a horizontal approach to report on our results rather than using the Program Activity Architecture (PAA) to structure our report, as we have in the past. The PAA was devised by the Treasury Board of Canada Secretariat to organize, integrate, and present plans, budgets, and performance measures, emphasizing linkages between resources allocated and outputs of the various activities undertaken by the organization. We have moved away from the PAA to allow us to focus our reporting on our horizontal strategic objectives.

As required by the *Canada Revenue Agency Act*, we provide information in this report concerning the objectives set out in our *Corporate Business Plan 2010-2011 to 2012-2013*. The core business outcomes set out in our Strategic Framework are the objectives of our *Corporate Business Plan 2010-2011 to 2012-2013*.

In order to provide a level of service that continues to meet Canadians' expectations, we undertake specific initiatives each year to enhance how we administer tax and benefits. Our *Corporate Business Plan 2010-2011 to 2012-2013* introduced these initiatives, along with the anticipated results they were intended to achieve, the success criteria we use to assess our progress, and the deliverables related to each initiative. An accounting against each deliverable we committed to complete during 2010-2011 can be found in the table at the end of each chapter.

We have provided a table in Schedule B on page 83 to help you understand the linkages between the information contained in this Annual Report and the structure in which our activities were presented in prior reports.

CRA SPENDING AND HUMAN RESOURCES

The table below sets out the overall spending levels for the CRA over the period covered by this report.

	2010-2011		
(thousands of dollars)	TOTAL AUTHORITIES[1]	ACTUAL SPENDING	VARIANCE
Total Planned Spending	4,596,714	**4,418,566**	178,148
Less:			
Taxpayers' Ombudsman[2]	3,595	**2,730**	865
Canada Revenue Agency	4,593,119	**4,415,836**	177,283

[1] The Agency's Total Authorities increased by $10.5m from $4,586.2M in 2009-2010 to $4,596.7M in 2010-2011, a growth of 0.2%. This is attributable to a number of specific changes including incremental funding related to the implementation of the HST/HSTC for Ontario and British Columbia and the Affordable Living Tax Credit for Nova Scotia. However, these increments were partly offset by the sunsetting of funding for the implementation of tax measures introduced in prior years through the Federal Budget.

[2] Since the Taxpayers' Ombudsman operates at arms-length from the CRA, this Annual Report does not reflect the activities of that office.

	Planned	**Actual**	Variance
Full-time equivalents	39,493	**40,174**	(681)

THE NATURE OF TAX AND BENEFIT ADMINISTRATION

A well-functioning tax system is critical to the ability of federal, provincial, territorial, and First Nation governments to deliver programs, services and benefits to Canadians and Canadian businesses. The Canadian tax system depends on Canadians voluntarily calculating how much tax they owe and then paying the correct amount. At the CRA, we call this self-assessment and voluntary compliance. Non-compliance is when taxpayers do not pay all of the taxes they owe.

A sustainable tax and benefit system is one where:

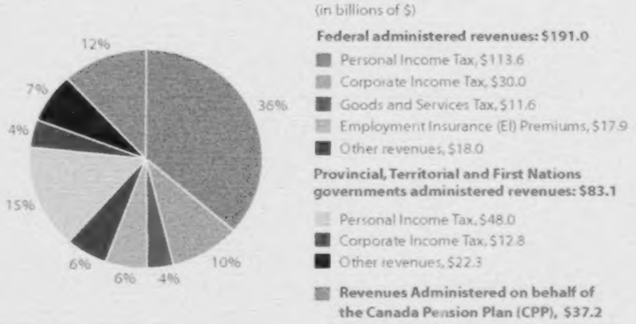
- taxpayers understand that paying tax is not only a civic responsibility but a legal duty that enables them to enjoy all the rights and benefits that accompany being a Canadian resident or business;
- the number of those who do not comply with the law is small however the tax administration has the tools to identify and deal with them in a fast and effective manner; and,
- the tax administration is equipped on an ongoing basis with the right people with the right skills and tools to meet its legislative requirements.

The CRA is Canada's tax administrator. It exercises its mandate within a framework of laws enacted by Parliament and by provincial and territorial legislatures. The CRA's fundamental approach to tax administration is to have individuals and businesses fulfil their obligations without our intervention. We work to promote taxpayer compliance to protect Canada's revenue base. We do this by delivering a number of programs that help taxpayers to pay their fair share of tax. We also detect and address instances where this does not occur.

ADMINISTERING TAX

The taxes that the CRA levies and the credits it administers are primarily set out in the *Income Tax Act* and the *Excise Tax Act*. We also administer specialty legislation relating to the Canada Pension Plan, Employment Insurance and softwood lumber. We undertake many non-tax activities, as well, including those related to charities, tobacco, registered plans, and non-tax collections.

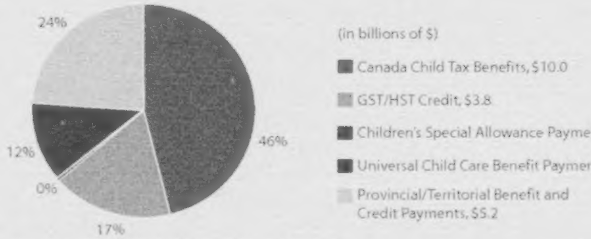
Figure 1 Tax Administration – Revenues for 2010-2011



Tax administration consists of several steps, beginning when taxpayers are registered in our automated systems using a Social Insurance Number for individuals or a Business Number for businesses. Taxpayers must report and pay tax owed (income tax for individuals) or collected on behalf of the government (e.g. payroll, goods and services tax, Canada Pension Plan contributions by businesses). Payments and return filing occurs at different times of the year depending on the type of tax and the category of taxpayer. We verify returns, payments, and registration or application data submitted for tax, benefit, and credit purposes to ensure that the information is accurate. Where individuals and businesses either unintentionally or intentionally fail to fully comply, we use a wide range of mechanisms in our verification and enforcement programs to induce taxpayer compliance and to protect Canada's revenue base. If necessary, we collect any outstanding debts and provide recourse for those who do not agree with our decisions.

ADMINISTERING BENEFITS

Figure 2 Benefit and Credit Payments



*Percentage may not add up to 100% due to rounding

The CRA plays a vital role in supporting families and individuals across Canada. We help millions of Canadians by administering a range of ongoing and one-time benefit and tax credit programs on behalf of federal, provincial, and territorial governments. In some instances, legislation allows us to provide information to support the programs administered by our government clients. By ensuring that benefit recipients have access to timely and accurate information, we help them receive their proper entitlements. Equally important, by working as a single delivery service on behalf of several levels of government, we reduce duplication and the overall cost of administering benefit programs.

We are very aware of the importance that Canadians place on fairness and transparency in all interactions with government. We respond to Canadians' expectations by ensuring that only eligible individuals receive benefits and that their entitlements are correct. This protects benefit and credit recipients from undue hardship that could be caused by underpayments while protecting government revenues by reducing overpayments.

RATING OUR RESULTS

Performance ratings

Met: Our results met or exceeded our expectations.

Mostly met: While the results met most of our expectations, some gaps exist.

Not met: Significant gaps exist in results and most or key expectations were not met.

We use both qualitative and quantitative measures or indicators, to assess our success in producing the results that we expect from achieving our objectives. We gather operational data, statistical samples, and survey results that form the basis of our assessments. Our targets identify the percentage or degree we expect to attain for a performance level. Our management teams establish performance targets by analyzing affordability constraints, historical performance, the complexity of the work involved, and the expectations of Canadians. We rate our results in terms of whether the targets identified in our *Corporate Business Plan 2010-2011 to 2012-2013* were met, mostly met, or not met. Additionally, we recognize that each measure and indicator does not have the same impact against our larger core business goals. We work to ensure balance in our evaluation by taking relative impact of each measure and indicator into consideration throughout our rating process.

We continue to make progress in strengthening our indicators and are developing further concrete measures. Like all tax administrations around the world we recognize that this is challenging work, however, it will allow us to make clear links between our long- and short-term goals, our actions, our outcomes, and the results that we expect. We look internally and externally to identify and exchange best practices in the area of results reporting and rating. We share information with other tax administrations on results measurement through various international fora. The CRA also participates in initiatives designed to benchmark key aspects of tax administration with jurisdictions around the world.

Data quality ratings

Good: Based on management judgment supported by an appropriate level of accurate information (including management estimates) obtained from reliable sources or methods.

Reasonable: Based on management judgment supported, in most cases, by an appropriate level of accurate information (including management estimates) obtained from reliable sources or methods.

Weak: Significant gaps in robustness of results information; results rating based on management judgment supported by entirely or predominantly qualitative information from informal sources or methods.

CRA STRATEGIC FRAMEWORK

The strategic framework below illustrates how the Anticipated Results from our *Corporate Business Plan 2010-2011 to 2012-2013* link to our core business outcomes. The chapters that follow describe the key accomplishments and areas for improvement that are most relevant to the achievement of our Anticipated Results and our core business outcomes. A table has been provided near the end of each chapter to summarize the performance indicator results that contribute to our assessment of whether we met our core business outcome. In addition, a table is provided that includes a listing of the year-end status of the 2010-2011 deliverables related to each initiative contained in our *Corporate Business Plan 2010-2011 to 2012-2013.*

OUR MISSION
To administer tax, benefits, and related programs and to ensure compliance on behalf of governments across Canada, thereby contributing to the ongoing economic and social well-being of Canadians

<table>
<tr><th colspan="4">OUR APPROACH</th></tr>
<tr><th>BUILDING TRUST TO PROMOTE COMPLIANCE</th><th>STRENGTHENING SERVICE TO MAKE COMPLIANCE EASIER</th><th>MAKING NON-COMPLIANCE MORE DIFFICULT</th><th>MAKING IT EASIER TO RECEIVE THE RIGHT SOCIAL BENEFITS</th></tr>
<tr><td>Core business outcome
Canadians have access to the information they need to voluntarily comply with tax laws and have access to impartial and timely review of contested decisions</td><td>Core business outcome
Canadians have access through multiple channels to services that they need to voluntarily comply with tax laws</td><td>Core business outcome
Identified non-compliance is addressed</td><td>Core business outcome
Canadians have access to the benefits and credits to which they are entitled and related payments are timely and correct</td></tr>
<tr><th colspan="4">ANTICIPATED RESULTS FROM RELATED CORPORATE BUSINESS PLAN INITIATIVES</th></tr>
<tr><td>• Specific taxpayer groups have access to the information they need to meet their obligations and receive their entitlements
• Individuals and businesses have access to the information and services they require to voluntarily comply with tax and benefit laws
• Improving service to taxpayers through enhanced management of Agency-wide service-related issues
• Service to Canadians is enhanced through increased awareness of the Voluntary Disclosures Program
• Service to registered charities and applicants for charitable status is enhanced through improved application and enquiries processes</td><td>• Individuals and businesses utilize the services and information that they need through self-service channels
• Individuals and businesses continue to file and make payments electronically
• The HST is successfully implemented on behalf of the Government of Canada and the provinces of Ontario and British Columbia</td><td>• Increased number of taxpayers who pay on time
• Aggressive tax planning arrangements are identified and addressed more effectively through audits, research, risk assessment, and international collaboration
• Underground Economy activity in selected economic sectors is identified and addressed
• Reduce the risk of employers and businesses failing to file, withhold, or remit taxes
• All stamped tobacco products in Canada are excise duty paid
• The administration of the SR&ED Program is improved
• Reporting non-compliance is detected and corrected
• The participation of charities involved in non-compliant arrangements is reduced</td><td>• Individuals are aware of and can apply or register for their entitlements to benefits and credits under various federal, provincial, and territorial programs
• The overall cost to Canadians of benefit and credit issuance is lowered through increased integration in administration
• The demands of current and future programs and services are fulfilled
• Benefit issuance accuracy is further improved through enhanced targeted reviews</td></tr>
</table>

CHAPTER 2

BUILDING TRUST TO PROMOTE COMPLIANCE

WHAT IT IS

Tax administration runs the spectrum from providing initial information and delivering services through to ensuring appropriate recourse when taxpayers don't agree with decisions made about their assessments. We work to build and maintain the trust of taxpayers and other stakeholders through activities such as outreach; information services; a formal dispute resolution service that provides taxpayers with an impartial review of their file; and our Voluntary Disclosures Program. We strive to minimize the burden for taxpayers by streamlining administrative processes and providing quality service. When we fail to provide quality service to taxpayers, we have an established service complaints program as an avenue they may pursue.

The goal of these activities is to ensure Canadians have access to the information they need to voluntarily comply with tax laws and have access to impartial and timely reviews of contested decisions.

WHAT WE ACHIEVED DURING 2010-2011

We continued to strengthen the quality of our services for taxpayers to promote voluntary compliance with Canada's tax laws. We ensured that more Canadians have the information they need. We delivered thousands of outreach information sessions, maintained our high caller accessibility levels on all of our enquiries lines and improved a wide range of electronic services available on the CRA Web site. In addition:

- Visits to the CRA Web site increased by over 7%;
- Calls to our *e-Services* Helpdesk were up almost 15%; and
- We exceeded our transparency and consistency targets for all dispute cases, except for commodity taxes where we achieved 95% against a 98% target.

We also demonstrated fairness and impartiality in our review of taxpayers' contested decisions, although providing Canadians with a timely decision continued to be a challenge. Service complaints and taxpayer relief provisions were administered consistently, underscoring our commitment to fairness.

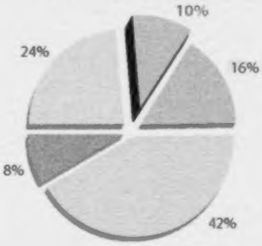
WHERE WE GO FROM HERE

We will explore ways to improve voluntary compliance by increasing our understanding of how best to promote responsible citizenship. We will also build upon our efforts during 2010-2011 to improve our timeliness in reviewing contested decisions.

The information below sets out the overall spending levels to promote compliance over the period covered by this report

Spending Profile

Total spending: $4.4 billion



(in thousands of $)

▨ **Building trust to promote compliance $452,562**

▨ Strengthening service to make compliance easier $704,572

▨ Making non-compliance more difficult $1,846,313

▨ Making it easier to receive the right social benefits $369,838

▨ Maintaining business sustainability $1,042,551

(in thousands of $)

Total authorities
$456,533

Actual expenditures
$452,562

Variance
$3,971

Full-time equivalents
5,201

INFORMATION FOR TAXPAYERS

Our outreach programs and communications activities promote compliance by providing information and tools in a variety of formats and venues to reach our diverse audiences. Outreach efforts address a wide range of issues and are delivered by many different areas of the CRA. They sometimes revolve around one-time events. For example, a prime focus during 2010-2011 was the advent of the harmonized tax regimes in Ontario and British Columbia, which required targeted communications strategies and products to create awareness. A proactive multi-media approach was used to educate businesses. Interactive on-line seminars (webinars) were conducted. In addition, a series of short videos were produced and made available on the CRA Web site which provided information on various HST topics.

Our communication and outreach activities are most often used to inform and assist individuals and businesses with ongoing programs and issues. The majority of our outreach activities focused on small and medium enterprises, individual taxpayers, youth, newcomers to Canada, seniors, volunteers, people with disabilities, and Aboriginal communities. We continued to increase our use of technology to improve outreach this past year, including the use of video conferencing to inform taxpayer groups. This technology allows us to reach wider audiences and those who live in remote locations efficiently and cost effectively. We provided 48 video conferencing sessions to 6 distinct outreach groups during 2010-2011.

SERVICE FOR TAXPAYERS

Individuals and businesses often require information and services specific to their situations. We strive to ensure that taxpayers can rely on our agent-assisted services including specialized 1-800 telephone numbers, technological interactive services such as Smartlinks, and in-person appointments to meet their information needs. Comprehensive automated telephone response systems provide service 24 hours a day, seven days a week. During regular business hours, we route calls among call centres as demand increases or decreases. This makes the most effective use of our resources, reduces costs, and provides extended hours of service for Canadians.

Making sure that individuals, businesses and charities can reach us when they need assistance helps to foster trust in the tax system and compliance with tax laws. In 2010-2011, we met our caller accessibility targets of 90% for general and business enquires, despite a more than 7% increase in call demand on the business lines. This increase was largely due to enquiries related to the implementation of the Harmonized Sales Tax in Ontario and British Columbia as well as changes in mandatory electronic filing for GST/HST registrants. We also exceeded the 90% caller accessibility target for answering tier 1 charities enquiries.

Deliverables	2009-2010	2010-2011	Change
Number of agent assisted tax enquiries	13,467,481	13,821,619	2.6%

Our call centre agents respond to the majority of enquiries. Service by appointment is available at our Tax Services Offices, however, the number of taxpayers making appointments has declined each of the last three years. We also work hard to ensure that the information we provide to taxpayers through our enquiries services is accurate. We make sure that agents have access to up-to-date training and online reference materials, including a newly developed service excellence training product, and use quality assurance techniques that provide ongoing, prompt feedback to our individual and business enquiries agents. This helps our agents to provide technically accurate responses to taxpayers' questions.

We provide an array of user-friendly electronic services that help individuals and businesses to pay their taxes. Over the past year we made improvements to My Account based on our analysis of client needs. While electronic services can generate efficiencies they may also create a need to provide support and assistance to those who wish to take advantage of them. For instance, calls to the *e-Services* Helpdesk increased almost 15% over the previous year. Many of the calls were enquiries about the introduction of mandatory electronic filing for GST/HST registrants that came into effect on July 1, 2010. The introduction of the Credential Management System, which replaced the Government of Canada epass process for CRA services also contributed to the increase.

We continue to be recognized world-wide for the ways in which we migrate callers to self serve options, thereby reducing the number of callers needing agent-assisted service. In a recent international tax benchmarking study, comparing the quality of call centre operations in different tax administrations, Canada was singled out for a number of operating practices that promote the use of self service. Specifically mentioned was the use of automated Interactive Voice Response (IVR) systems (such as the Tax Information Phone Service, or "T.I.P.S.") to provide general information and respond to simple, repetitive calls twenty four hours a day, seven days a week. Also noted was our use of queue messages in which callers, while waiting for an agent, hear topical messages that are continuously updated concerning upcoming deadlines, extended hours of service, and information available on the CRA Web site. In addition, our Taxpayer Services Agent Desktop application was cited as enabling agents to quickly authenticate a caller and display caller details and our stand-alone call centre environment was observed to promote more creative employee engagement, leading to higher morale and lower absenteeism.

Deliverables	2009-2010	2010-2011	Change
Income Tax Technical Interpretations completed	3,003	2,778	-7.5%
Advance Income Tax Rulings completed	194	210	8.2%

During 2010-2011, as in recent years, the turnaround time for advance income tax rulings was longer than our published service standard (see page 84). The increase in turnaround time for issuing advance income tax rulings is largely due to the greater complexity of incoming files, combined with less experienced, newly hired staff for this specialized workload. Over the past year, we followed through with recommendations stemming from an in-depth study conducted of this workload in order to improve performance. As a result of this study, we are considering the revision of the advance income tax rulings service standard to better align with anticipated outcomes and put in place various process improvements in order to meet the service standard by the end of 2012-2013.

REDRESS

The right of taxpayers to request an impartial review of CRA decisions is integral to our tax administration system. If they are still not satisfied following this comprehensive review, recourse through the judicial process is available.

As discussed in prior annual reports, the CRA is experiencing an increase in disputes from taxpayers impacted by the CRA's audit approach to aggressive tax plans. These plans typically involve transactions, arrangements, or events specifically designed to reduce taxes. We have preserved our high quality standards in the processing of disputes. However, due to the high volume, we have not been able to maintain overall timeliness.

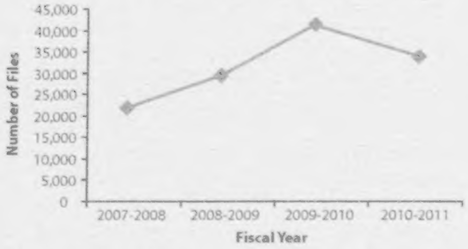
During 2010-2011, we further strengthened service to Canadians by taking a centralized workload distribution approach to the less complex disputes received. Previously, this work was handled regionally but today it can be distributed throughout the country. This strategy is starting to produce improvements in service delivery.

An internal reallocation of resources has stabilized the front-end management activities of our redress process. As a result, our response time to acknowledge receipt of disputes has improved. In 2009-2010, it took us, on average, 47.7 days to acknowledge a dispute. Last year that was reduced to an average of 39.5 days, a 17.2% improvement.

We continued to ensure high quality standards during 2010-2011. Two key measures of our quality redress process are our levels of transparency and consistency. Transparency measures evaluate whether we offered to provide to the taxpayer all relevant information supporting the issues under dispute. Consistency measures evaluate whether we reviewed, researched, and addressed taxpayers' issues under dispute, applied the law correctly, provided taxpayers with an opportunity to respond to our proposals, and arrived at correct decisions. During 2010-2011, we exceeded our transparency and consistency targets, except for commodity taxes where we achieved 95% against a 98% consistency target.

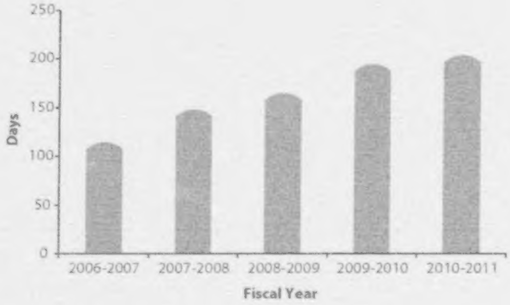
The largest proportion of our dispute-resolution workload involves income tax disputes. During 2010-2011, it took, on average, nine workable days more to provide taxpayers with a decision compared to 2009-2010. In contrast, we took 30 workable days more in 2009-2010 compared to 2008-2009. Even though the number of days to resolve disputes has continued to climb, this growth is lower than in prior years. Next year, we will add extra resources to reduce our inventory. We anticipate this will improve the overall timeliness of our redress process in the future.

Figure 3 Appeals workload – disputes received related to aggressive tax planning



Data quality: Good

Figure 4 Workable days to complete an income tax case



Data quality: Good

During 2010-2011, the average time to resolve commodity tax disputes rose by an average of 48 days and the average age in inventory for our commodity tax files increased. These increases resulted from the reassignment of resources from commodity tax to income tax resolution activities in 2009-2010. This past year, we adjusted our commodity tax capacity, leading to the resolution of more commodity tax disputes than in the previous year.

The average time to resolve a CPP/EI appeal to the Minister of National Revenue rose by six days in 2010-2011. Our production rate increased and our inventory of workable files at the end of the year dropped. These changes were influenced by the resolution of older files and a slight drop in intake. The average age of inventory for our CPP/EI files also improved this past year, dropping to 118 days during 2010-2011 from 135 days in 2009-2010.

Deliverables	2009-2010	2010-2011	Change
Income tax disputes – resolved	57,791	61,506	6.4%
Income tax disputes – intake	106,548	94,449	-11.3%
Commodity tax disputes – resolved	6,778	7,613	12.3%
Commodity tax disputes – intake	8,151	7,385	-9.4%
CPP/EI disputes – resolved	2,872	3,011	4.8%
CPP/EI disputes – intake	3,043	2,873	-5.6%

We further refined our online presence to improve taxpayer's access to appeals services. During 2010-2011, we expanded the online formal dispute service for appeals involving Canada Pension Plan and Employment Insurance.

SERVICE COMPLAINTS

Service complaints help us to identify problems, propose solutions, and provide taxpayers with a formal avenue of recourse, which is guaranteed under the Taxpayer Bill of Rights. If taxpayers disagree with a decision resulting from our Service Complaints process, they can file recourse actions with the Taxpayers' Ombudsman.

Improving this service to taxpayers is critical to the ongoing success of the program and to increasing Canadians' confidence in the CRA's promise of fairness. In 2010-2011, we reviewed the cases received by the Service Complaints program to identify common complaints from taxpayers.

We identified 26 issues of national importance through an analysis of our Service Complaints Program. Of these, five were resolved, and 21 are still under review. Some of the examples of issues resolved included:

- An international fax number for anyone not satisfied with the services provided by CRA – we have published a non-toll free fax number on our Web site and added the number to our Service-Related Complaint and Service Complaints forms.
- Tax information for the Retirement Compensation Arrangement slips – we made a spreadsheet available to our agents that identifies recipients of these slips that includes the amounts of tax deducted at source. This eliminates the need for taxpayers to submit paper copies.

We have in place three performance indicators to demonstrate our determination to provide taxpayers with a consistent and effective service complaints process:

- We aim to send the taxpayer a complaint acknowledgement letter within two business days of receiving the complaint;
- We are committed to updating the taxpayer on the status of their complaint every 15 days thereafter; and
- We strive to resolve the taxpayer complaint within 30 working days.

For the period 2010-2011, we exceeded the 90% performance targets for all three standards.

VOLUNTARY DISCLOSURES BY TAXPAYERS

The Voluntary Disclosures Program (VDP) allows taxpayers to come forward and correct inaccurate or incomplete information or disclose information they have not previously reported to the CRA. This promotes voluntary compliance with Canada's tax laws. Taxpayers using the program have to pay the taxes owing, plus interest, but may avoid penalties and prosecution relating to the amounts disclosed.

During 2010-2011, we promoted the program through speaking engagements and other outreach initiatives as well as increased references to VDP in our correspondence with taxpayers and in tax alerts. In addition, clarification of VDP policies was provided through presentations to various associations and responses to media enquiries.

The program saw growth in intake and an increase in the number of disclosures processed during the past year, totalling $600 million in additional tax revenue. Voluntary disclosures led to the identification of $773 million in unreported income compared to $1.8 billion identified during 2009-2010. The latter was significantly larger than historical norms because it included two large disclosures with income totalling more than $900 million. Despite the growth in intake, the average number of days to process a file was 180 compared to 196 in 2009-2010 and our VDP inventory is the lowest it has been in years. This program is driven by taxpayers coming forward and therefore it is not possible to control either the number of taxpayers disclosing, or the associated unreported income.

Deliverables	2008-2009	2009-2010	2010-2011
Voluntary disclosures program cases received	10,634	12,128	12,811
Voluntary disclosures program cases processed	11,393	12,506	13,009
Voluntary disclosures program unreported income identified	$766 Million	$1.8 Billion	$773 Million
Number of voluntary disclosures cases in inventory	4,082	3,708	3,507

CHARITIES

In 2010-2011, we continued to provide timely telephone and written responses to the charitable sector through our registration application processes, our call centres, and our written enquiries process. We also improved our outreach activities to ensure registered charities have access to the information they need to meet their legal obligations to comply with the *Income Tax Act*. We offered 75 Charities Information Sessions to registered charities across Canada, with 96% of participants indicating they were satisfied or very satisfied with the sessions. We also delivered 17 webinars (a limited interactive environment in which dialogue can occur between participants and CRA representatives) to 2,164 individuals. When surveyed, 91% of participants indicated that they were satisfied or very satisfied. The client satisfaction survey scheduled to be completed in 2010-2011 has been postponed to 2011-2012.

We continue our work on the Small and Rural Charities Initiative. Only two of the 58 recommendations have not been completed and are scheduled for completion in 2011-2012 and 2012-2013.

Deliverables	2009-2010	2010-2011	Change
Number of Charities registered with CRA	85,407	85,629	0.3%

We also enhanced the functionality of the Charities and Giving Web site by updating search tips, download instructions, links to definitions, and providing the latest available web and e-mail addresses of registered charities. There were over 1,700,000 visits to the Charities and Giving Web site, an increase of 14% over 2009-2010.

CONCLUSION

OUR CORE BUSINESS OUTCOME	YEAR	PERFORMANCE RATING	DATA QUALITY
Canadians have access to the information they need to voluntarily comply with tax laws and have access to impartial and timely review of contested decisions	**2010-2011**	**Mostly Met**	**Good**

Overall, we can conclude that we have mostly met our core business outcome. We continued to strengthen the quality of our services for taxpayers to promote voluntary compliance with Canada's tax laws. Our work during 2010-2011 provided valuable assistance towards the development of a CRA outreach strategy, and helped us to deliver important messages to Canadians. It is not possible to provide an objective measure of the impact of these outreach activities, however we are confident they advanced our objective of providing taxpayers with the necessary information to voluntarily comply with their obligations. We maintained our high caller accessibility levels on all of our enquiries lines. We made improvements to a wide range of electronic services available on the CRA Web site and we interpret the increase in *e-Services* Helpdesk calls as an indication this service is achieving the goal of providing access for taxpayers who need it. We demonstrated fairness and impartiality in our review of taxpayers' contested decisions. Service complaints and the taxpayer relief provisions were administered consistently, underscoring our commitment to fairness. Our Voluntary Disclosures Program continued to generate the intended results and it is our assessment that the services we provide to registered charities are trusted and that our levels of responsiveness contribute to promoting compliance with the charitable sector.

Canadians expect quality decisions from their dispute resolution process – a key element in maintaining their trust in the CRA. With that said, having a more timely process is also important. We remain cognizant that even with additional resources being allocated and dispute inventory growth stemmed, it has taken us more time to process decisions. We anticipate our strategies will achieve year over year reductions in the overall time it takes us to resolve disputes. Overall, we can conclude that we have mostly met our core business outcome and continue to build trust among Canadians in our tax administration and promote compliance among taxpayers.

KEY VOLUMETRICS

Enquiries and information services – We handled almost 18 million tax enquiries by agents and automation.

Disputes – We resolved more than 72,000 disputes. The total value of taxes in dispute inventory at March 31, 2011 is more than $14.6 billion (value of workable files is over $4.9 billion, non-workable files is over $9.7 billion).[1]

Taxpayer Relief – A total of 82,344 requests for relief from interest and penalties were processed by the CRA: 46,761 of these requests were allowed in favour of the taxpayer. The total value of all cancellations and waivers, including automated waivers[2], was more than $328 million for 279,787 requests.

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[1] Non-workable files are those awaiting a court decision or action from others.

[2] Waivers can either be client requested or automated depending on the situation. An automated waiver results when a penalty or interest that has not yet been charged to an account is waived due to administrative policies.

OUR PERFORMANCE MEASUREMENT FRAMEWORK – BUILDING TRUST TO PROMOTE COMPLIANCE

Our indicators	Current target	2006-2007	2007-2008	2008-2009	2009-2010	2010-2011	Rating
Information for taxpayers							
General calls answered within two minutes of entering the agent queue	80%	82%	83%	82.4%	80.9%	81.8%	✓
Business calls answered within two minutes of entering the agent queue	80%	81%	81.7%	86.8%	86%	84.1%	✓
Percentage of general callers who reach our telephone service[1]	90%	83%	84%	92%	91%	91%	✓
Percentage of business callers who reach our telephone service[1]	90%	86%	79%	94%	93%	92%	✓
Service for taxpayers							
Average number of days to issue an income tax technical interpretation to taxpayers	90 days (avg)	105	89	91	89	87	✓
Average number of days to issue an advance income tax ruling to taxpayers	60 days (avg)	94	101	104	98	102	✕
Providing redress							
Service standard for initial contact – Appeals	85%	89%	84%	68%	50%	50.5%	✕
Average age of workable inventory (in days) – Income tax files	Neutral or Downward trend	175	177	205	215	228	✕
Appeals activities that met standards for consistency – income tax files	97%	99.6%	99.5%	99.0%	98.6%	98.7%	✓
Appeals activities that met standards for transparency – income tax files	98%	99.3%	99.6%	99.5%	99.7%	99.0%	✓
Service complaints—acknowledged within 48 hours	90%	N/A	N/A	93.8%	97.9%	96.6%	✓
Service complaints—taxpayers contacted within 15 days	90%	N/A	N/A	86.7%	94.5%	93.1%	✓
Taxpayer relief provisions—consistent application (per Quality Assurance Program)	95%	N/A	N/A	95%	97%	97%	✓
Voluntary disclosures							
Average processing time for voluntary disclosures (in days)	Downward trend	225	227	253	196	180	✓

[1] The caller accessibility targets for general and business callers were raised from 80% in 2008-2009

✓ Met	M Mostly met	✕ Not met	n/a Not available	N/A Not applicable

RESULTS AGAINST 2010-2011 PLANNED DELIVERABLES

This past year, the CRA took steps to implement the initiatives listed below to enhance our ability to build trust to promote compliance with Canada's tax laws. The tables also identify the status as of the end of the past fiscal year for each commitment related to these initiatives to be delivered in 2010-2011 as set out in our *Corporate Business Plan 2010-2011 to 2012-2013*.

The status of a deliverable falls into one of three categories:

Completed – All planned activities related to the deliverable were finished on or before March 31, 2011.

In progress – At least one activity related to the deliverable was not completed prior to the end of the fiscal year.

Not started – No activities were begun by March 31, 2011, in relation to the deliverable.

Where no deliverables were to be completed during the 2010-2011 fiscal year for an initiative, we have inserted the abbreviation
N/A (not applicable).

INITIATIVE – STRENGTHEN OUTREACH

DELIVERABLES	STATUS
Develop a CRA outreach strategy	In progress
Develop integrated horizontal outreach plans	In progress

INITIATIVE – OPTIMIZE SERVICE DELIVERY CHANNELS

DELIVERABLES	STATUS
No deliverables were scheduled to be completed in 2010-2011.	N/A

INITIATIVE – RESOLVE TAXPAYER DISPUTES AND SERVICE COMPLAINTS

DELIVERABLES	STATUS
Develop a Web-based portal for service complaints officers to populate service-related issues according to category, risk, and national importance	In Progress
Raise awareness about the CRA Service Complaints Program among our employees	Completed

INITIATIVE – ENHANCE THE ADMINISTRATION OF OUR VOLUNTARY DISCLOSURES PROGRAM

DELIVERABLES	STATUS
Enhance risk management of incoming disclosures	Completed

INITIATIVE – ENHANCE OUR CHARITIES PROGRAM

DELIVERABLES	STATUS
Implement a service standard for responding to applications	Completed
Implement the remaining Small and Rural Charities Initiative recommendations	In progress
Develop a client satisfaction survey	Not started
Deliver a number of webcasts, webinars, and newsletters	Completed

CHAPTER 3

STRENGTHENING SERVICE TO MAKE COMPLIANCE EASIER

WHAT IT IS

Providing Canadians with information, tools, and services via multiple service channels helps them to meet their tax obligations. This principle underpins CRA's three-year strategy to enhance service delivery for individuals and businesses. We offer information through our Web site, publications, Interactive Voice Response, agent-assisted enquiries, electronic transactions, and account modifications through our web pages.

The goal of these activities is to ensure Canadians have access, through multiple channels, to the services they need to voluntarily comply with Canada's tax laws. We aim to make it easier for Canadians to comply by strengthening service delivery channels and reviewing federal rules and regulations to reduce the administrative costs of compliance.

WHAT WE ACHIEVED DURING 2010-2011

We continued to provide timely, accessible, and reliable service to help taxpayers meet their tax obligations including reliable telephone services. We also strengthened service to Canadians by capitalizing on technological innovations that open up new opportunities to reduce the burden of compliance. Canadians are increasingly embracing our electronic service offerings:

- 66.3% of interactions and transactions were undertaken on a self service basis by individual and business taxpayers, and benefit recipients and/or their representatives, up 2.5% from the previous year;
- There were over 14 million visits to My Account;
- There was a 69.7% increase in electronic corporate returns processed;
- There was a 56.2% increase in successful log-ins to My Business Account services; and
- 60.3% of individual returns were filed electronically.

Processing individual and business tax and information returns and payments, accurately and on time, also fosters self-assessment and voluntary compliance. Our continued success in these areas in 2010-2011 leads us to conclude that we met our objective of providing Canadians with access to the services they need to meet their tax obligations voluntarily. In addition, we responded to the service challenge of implementing HST in Ontario and British Columbia, another major accomplishment.

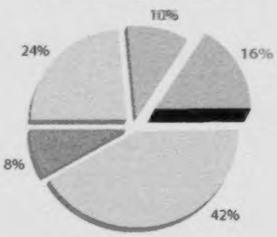
WHERE WE GO FROM HERE

We will continue to pursue cost-effective ways to improve service to Canadians and will introduce new electronic services and enhancements to existing services.

The information below sets out the overall spending levels for strengthening service over the period covered by this report

Spending Profile

Total spending: $4.4 billion



(in thousands of $)

- ■ Building trust to promote compliance $452,562
- ■ **Strengthening service to make compliance easier $704,572**
- ■ Making non-compliance more difficult $1,846,313
- ■ Making it easier to receive the right social benefits $369,838
- ■ Maintaining business sustainability $1,042,551

(in thousands of $)

Total authorities
$718,460

Actual expenditures
$704,572

Variance
$13,888

Full-time equivalents
6,958

ELECTRONIC SERVICES

Navigating the internet and accessing the right information and services can be difficult and frustrating for many people. We are working to make the CRA Web site pages simple to follow and adding options that facilitate use of our online services to promote compliance.

Related Risk

While the CRA has an excellent track record of delivering high quality services, it is possible that new and increasing demands outstrip the CRA's ability to respond within relatively flat resource levels.

My Business Account	2009-2010	2010-2011	Change
Successful log-ins	794,318	1,240,702	56.2%

We added features to My Business Account this past year to encourage businesses to perform certain transactions. One of the key new features has made it simpler to transfer payments within a program account and between program accounts of the same nine digit business number, to make adjustments to GST/HST returns, and to make online requests for certain financial transactions. We also added an instalment payment calculator to our Web site in 2010-2011 to make it easier for businesses to calculate their instalments for corporation and GST/HST accounts. Enhancements have been made to our Payroll Deductions Online Calculator, as well, to calculate payroll deductions more easily. The improvements include enhancements to screen displays, organization of tools, and information access. For GST/HST NETFILE, features were added so that registrants can now also file their Public Service Bodies' Rebate at the same time as they electronically file their GST/HST Return.

In 2010-2011, there was an increase of almost 1.3 million electronically filed GST/HST returns due, in part, to the harmonization of the provincial sales tax in Ontario and British Columbia and the introduction of mandatory electronic filing initiatives. As well, there was an increase of over 369,000 corporation returns filed via the Internet due, in part, to the Corporate Tax Administration for Ontario (CTAO) and mandatory Internet filing initiatives.

My Account	2009-2010	2010-2011	Change
Quick Access	1,149,199	1,196,205	4.1%
Successful log-ins	4,597,032	4,690,737	2.0%

In July 2010, we redesigned the layout of My Account to feature the use of tabs to more effectively organize and display the growing amount of information. The changes were designed to improve usability, streamline navigation, and contribute to an easy to use, intuitive user experience.

A popular new option added to our Web site in 2010-2011 helps employers ensure that enough Canada Pension Plan contributions and Employment Insurance premiums have been withheld for full year employees. The growing number of log-ins to this Web page provides evidence that businesses see the benefits of using this online service

We witnessed a 2.5% increase in self-service transactions by individual and business taxpayers, and benefit recipients and/or their representatives from a year ago. This places us firmly on track to attain our objective of a 5% increase by 2012. The public appetite for online services has been increasing with electronic filing rates for individuals and businesses continuing to trend upwards. Our Quick Access online option continues to be a popular choice for taxpayers, as it provides information on their taxes and benefits, such as tax return status, RRSP deduction limit, Tax Free Savings Account contribution room, and the status of benefit payments.

The Represent a Client service has proven to be a significant addition to the suite of self-service options. Use of the Represent a Client service continued to grow in 2010-2011. The number of new registered representatives was over 27,500, which is 45% more than last year. Nearly 3.2 million individual accounts and 1.2 million business accounts were accessed, increases of 44% and 68% respectively.

We will look for new opportunities to add value to our electronic service environment while ensuring that our online channel is reliable and secure. In 2010-2011, we introduced important new measures to increase security. As one example, we implemented our own credential management service. These measures have lowered overall costs, enabling the CRA to offer a broader suite of secure electronic services.

As part of CRA's plain language initiative, special attention was paid to the quality of our correspondence with taxpayers as well as the quality of guides, forms, and Web pages. For example, in 2010-2011, verses used in notices of assessment, standard letters on debt collection, Web pages, and letters fom the Taxpayer Relief Program were edited for plain language. Also, a cover-to-cover plain language review wasperformed on the T1 guide and its related federal and provincial forms. Other activities included giving CRA employees the tools, training, and support they need to put plain language into practice. As one example, an interactive, facilitator-led course was developed to teach the principles of plain language and help CRA employees develop their skills in applying these principles. To date, close to 1,700 employees across the CRA have attended the course.

TAX FREE SAVINGS ACCOUNT (TFSA)

The response to the TFSA has been overwhelmingly positive. At the end of 2009, there were approximately 4.8 million TFSA holders. That number rose to 6.7 million by the end of 2010. Given the program's popularity, we anticipate continued and considerable growth in the number of holders in future years. To accommodate the increase, and to ensure timely updating of TFSA records, we are exploring ways to streamline our processing routines.

As part of the administration of the program, the CRA reviews information received from financial institutions and TFSA issuers to identify individuals who may have over-contributed. The results of these reviews showed that a small minority of Canadians, around 1.5% of all TFSA holders, did not fully understand the rules. We responded to this by:

- conducting public opinion research;
- improving the information on the CRA Web site; and,
- conducting outreach with the financial industry.

In the second year of the program we saw a slight decrease, to 1.4%, in the proportion of TFSA holders who made excess TFSA contributions.

We continue to work to increase awareness of TFSA guidelines among Canadians and financial institutions. We will do so by continuing to update TFSA web pages, issue relevant Tax Tips, write community newspaper articles, and deliver Webinars to financial institutions.

PROCESSING RETURNS AND PAYMENTS

The timely and accurate processing of returns is another way to encourage voluntary compliance. We met our external service standards this past year for processing T1 individual returns in both paper and electronic formats, confirming that we provided timely service to Canadians. In addition, we met our internal processing target by processing 100% of the individual returns that were filed on time by mid-June 2010.

Despite the recent introduction of HST in Ontario and British Columbia, which significantly impacted the complexity of the GST/HST return and review process, we were able to process 90.3% of GST/HST returns within 30 days. Although we did not meet our 95% target, we are working to introduce additional efficiencies that will accelerate our processing times. Overall, the number of paper returns that we process continues to fall due to the increased use of electronic filing.

Returns processed	2009-2010	2010-2011	Change
Individual – paper	11,205,066	10,649,845	(5)%
Individual – electronic	15,530,698	16,278,055	4.8%
% of individual – electronic	58.1%	60.5%	2.4%
Corporate – paper	1,377,083	1,052,973	(23.5)%
Corporate – electronic	536,074	909,902	69.7%
GST/HST – paper	5,419,524	4,404,311	(18.7)%
GST/HST – electronic	1,815,943	3,107,219	71.1%

Our My Payment service lets individuals and businesses make payments electronically through a secure link with participating Canadian financial institutions that offer the Interac® Online payment service. We promoted the use of My Payment during 2010-2011 through outreach and promotional activities including news releases and other CRA announcements, mail-outs, and conferences. This service is an additional way we are making compliance easier.

We expanded the use of the Business Number (BN) this past year as a common client identifier for businesses to securely and efficiently interact with various levels of government. In December, 2010, the CRA and the Province of Saskatchewan signed a letter of intent to adopt the BN for the province's Corporate Registry in April, 2012. The wider use of the BN will reduce the administrative burden for both businesses and the CRA.

Improvements to service delivery help to ensure taxpayers provide correct information, which increases our accuracy in handling taxpayers' files. Our T1 Quality Evaluation Program reviews initial assessments of individual tax and benefit returns. It is our primary tool to determine the accuracy of individual returns assessed. Our results for 2010-2011 show that processing errors with an impact on a taxpayer's refund or balance due was 1.17%. This compares with 0.96% the previous year. From 2000 through 2010, the amounts per error averaged $252.06.

The CRA strives to be fair in all aspects of its activities as this is crucial to sustaining taxpayers' trust. When we find errors on tax returns, we correct them, if possible. While some errors result in additional tax owing, others mean taxpayers pay more tax than required. As part of our processing review, we compare an individual's return to third-party information to identify areas where the taxpayer may have under-claimed credits. We adjust these returns to allow amounts the taxpayer is entitled to and, if applicable, issue a refund. In 2010-2011, we identified and corrected over 341,000 individual returns, resulting in an average beneficial adjustment of $284 per return.

HARMONIZED SALES TAX

In July 2010, the CRA implemented the harmonized sales tax (HST) in Ontario and British Columbia.[1]

Harmonization involved a significant number of system enhancements and changes to CRA programs and activities. To make compliance with the new tax laws easier we focussed on ensuring that both CRA staff and registrants were equipped with the right tools to prepare for the introduction of HST in Ontario and British Columbia.

A multi-media campaign to educate businesses and create public awareness was rolled out. It included interactive online seminars, short video presentations, in-person information sessions, and the distribution of over 1.1 million HST information sheets. Videos providing information on topics such as HST transitional rules, electronic filing, housing rebates, and forms for both businesses and consumers were posted on the CRA Web site and YouTube. Filing information was provided in several formats including inserts sent with GST/HST returns as well as webcasts on filing electronically using GST/HST NETFILE and how to identify the changes to GST/HST Rebates.

The HST audit and examination activities were enhanced during 2010-2011 enabling the CRA to focus on GST/HST compliance issues in high-risk areas. Audit programs are currently engaged in an intelligence gathering exercise to better understand the characteristics of non-compliance. This will further enhance the CRA's capacity to identify high risk files.

CONCLUSION

OUR CORE BUSINESS OUTCOME	YEAR	PERFORMANCE RATING	DATA QUALITY
Canadians have access through multiple channels to services that they need to voluntarily comply with tax laws	**2010-2011**	**Met**	**Good**

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[1] On August 26, 2011 the province of British Columbia announced that it will return to the provincial sales tax. The transition period is expected to take a minimum of 18 months. During this period, the CRA will continue to administer the HST in British Columbia.

In 2010-2011, we strengthened service to Canadians by capitalizing on technological innovations that led to an increase in taxpayers accessing our information and services electronically. Providing Canadians with multiple service channels makes it easier for taxpayers to comply with Canada's tax laws. Our successful efforts to process individual and business tax and information returns and payments, accurately and on time, further contributes to self-assessment and voluntary compliance. Advances in these areas in 2010-2011 lead us to conclude that we met our objective of providing Canadians with access to the services they need to meet their tax obligations voluntarily.

KEY VOLUMETRICS

Individual returns processing – We processed almost 27 million individual returns, over 10.6 million of which were paper; refunded almost $28 billion to more than 17 million individual taxpayers; and processed 235,191 trust returns.

Business Returns Processing – We processed 1,774,518 T4 and T5 information returns. We also processed more than 1.96 million corporate returns, 7.5 million GST/HST returns and just over 320,000 GST/HST rebates. There were more than 1.2 million log-ins and 243,860 new enrolments to My Business Account.

Payments – We handled more than 34 million payments, totalling over $383.7 billion.

OUR PERFORMANCE MEASUREMENT FRAMEWORK – STRENGTHENING SERVICE TO MAKE COMPLIANCE EASIER

Our indicators	Current target	2006-2007	2007-2008	2008-2009	2009-2010	2010-2011	Rating
Electronic services							
Electronic payments	Upward trend	19%	21.8%	24.1%	26.5%	29.7%	✓
Processing returns and payments							
ProcessingT1 individual income tax returns (electronic): within an average of 2 weeks[1]	100%	1.6 weeks	1.7 weeks	1.6 weeks	1.6 weeks	1.7 weeks	✓
Percentage of GST/HST returns processed within 30 days	95%	98.5%	91.9%	97.3%[2]	n/a[3]	90.3%[4]	M
Processing T2 corporation income tax returns within 60 days	90%	N/A	92.0%	90.8%	92.8%	94.5%	✓
Processing excise tax, excise duty, and air travellers security charge return within 90 days	95%	98.1%	98.2%	99.0%	97.0%	97.6%	✓
Percentage of individuals who file electronically	Upward trend	50.6%	53.5%	55.8%	57.9%	60.3%	✓
Percentage of GST/HST returns filed electronically	Upward trend	n/a	n/a	n/a	25%	41.3%	✓
Percentage of corporations who file electronically	Upward trend	14.0%	18.0%	21.5%	28.5%	46.8%	✓

[1] Represents the average number of weeks.

[2] The standard was changed from 21 days to 30 days to align with legislative changes.

[3] Substantiated results not available for 2009-2010.

[4] Revised data capture method began June 2010.

✓	Met	M	Mostly met	✗	Not met	n/a	Not available	N/A	Not applicable

RESULTS AGAINST 2010-2011 PLANNED DELIVERABLES

This past year, the CRA took steps to implement the initiatives listed below to strengthen service to make compliance with Canada's tax laws easier. The tables also identify the status as of the end of the past fiscal year for each commitment related to these initiatives to be delivered in 2010-2011 as set out in our *Corporate Business Plan 2010-2011 to 2012-2013*.

The status of a deliverable falls into one of three categories:

Completed – All planned activities related to the deliverable were finished on or before March 31, 2011.

In progress – At least one activity related to the deliverable was not completed prior to the end of the fiscal year.

Not started – No activities were begun by March 31, 2011, in relation to the deliverable.

Where no deliverables were to be completed during the 2010-2011 fiscal year for an initiative, we have inserted the abbreviation N/A (not applicable).

INITIATIVE – ENHANCE OUR ELECTRONIC SERVICES

DELIVERABLES	STATUS
Improve the usability of the Payroll Deductions Online Calculator	Completed
Add an instalment calculator to My Business Account to calculate payments on corporation and GST/HST accounts	Completed

INITIATIVE – PROMOTE THE TAKE-UP OF ELECTRONIC FILING AND ELECTRONIC PAYMENTS

DELIVERABLES	STATUS
Introduce GST/HST Internet File Transfer (GIFT) for GST/HST returns and eliminate exclusions that restrict the ability to file business returns electronically	Completed
Convert the File Identification Number (FIN) to the Business Number (BN)	Completed

INITIATIVE – FURTHER TAX HARMONIZATION

DELIVERABLES	STATUS
Implement the CRA system changes needed to accommodate the HST in Ontario and British Columbia	Completed
Provide taxpayers with the information they need to comply with the harmonized tax regime in Ontario and British Columbia	Completed
Begin administration of HST in Ontario and British Columbia	Completed

CHAPTER 4

MAKING NON-COMPLIANCE MORE DIFFICULT

WHAT IT IS

Taxpayers are expected to determine their own liability under the law, and then pay the correct amount of tax.

In instances where individuals and business either unintentionally or intentionally fail to fully comply, we use risk-based processes that seek to detect and address specific instances of non-compliance.

We strive to make non-compliance more difficult to ensure that all individuals and businesses meet their tax obligations and contribute to our goal of addressing identified non-compliance.

WHAT WE ACHIEVED DURING 2010-2011

We continued our efforts in addressing identified non-compliance as indicated by our achievements. By making it harder for taxpayers to be non-compliant, we ensured that more individuals and businesses paid the taxes they owe in 2010-2011.

- A filing rate, after five years, of close to 100% for corporations and 97% for individuals was achieved;
- The value of identified non-compliance of our returns and reporting compliance activities reached $14.4 billion;
- The number of taxpayers participating in gifting tax shelter arrangements showed a notable decline over the past five years; six registered charities were revoked for participating in such schemes; and, for the first time, a Third Party Penalty was assessed on a charity; and,
- Our Tax Service Offices (TSO) achieved the second highest percentage, within the last five years, of resolution of new debt in the year of intake.

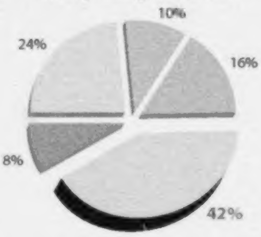
WHERE WE GO FROM HERE

We will continue to use tools and risk management techniques to direct our compliance efforts (reviews, audits, collections, investigations, etc.) to individuals, businesses, and not-for-profit organizations that are identified as being a high risk for not complying with Canada's tax laws.

The information below sets out the overall spending levels for non-compliance over the period covered by this report

Spending Profile

Total spending: $4.4 billion



(in thousands of $)

▨ Building trust to promote compliance $452,562

▨ Strengthening service to make compliance easier $704,572

▨ **Making non-compliance more difficult $1,846,313**

▨ Making it easier to receive the right social benefits $369,838

▨ Maintaining business sustainability $1,042,551

(in thousands of $)

Total authorities
$1,862,873

Actual expenditures
$1,846,313

Variance
$16,560

Full-time equivalents
17,984

OUR APPROACH

There will always be taxpayers who choose not to comply. Through our compliance activities, as well as an active collections program, we limit the impact of those who unintentionally or purposely are non-compliant.

We maximize our results within a limited resource base through the application of a risk-based approach. First, we use risk management principles to identify current as well as emerging compliance risks. We assess these risks for their potential effects on Canada's revenue base and on compliance levels in general. Second, we develop strategies to mitigate the greatest risks to compliance. These strategies address specific segments of the tax population or particular areas of non-compliance, employing a mix of instruments such as third-party information slips and document matching, reviews, examinations and audits, and investigations. When warranted, we prosecute individuals and businesses in cases of willful non-compliance.

The results of our actions are reflected in the value of identified non-compliance achieved by our various compliance programs. This value represents our assessment of non-compliance and may be reduced through opportunities for taxpayer redress and may be determined to be uncollectible.

ELEMENTS OF TAX NON-COMPLIANCE	COMPLIANCE ACTIVITIES
Filing and Registering: Individuals and businesses who fail to file income tax returns and/or to register for GST/HST	• Employer withholding reviews and examinations • Trust account examinations • GST/HST Delinquent Filer Program • Non-Filer/Non-Registrant Program • Third-party information reporting • Exchange of information and international agreements • Compliance research • Risk modelling • Document matching • Audit and review • Applying penalties • Investigation and referral to the Department of Justice Canada for prosecution • Debt collection
Reporting: Income is undisclosed or understated, and/or expenses/credits/rebates are overstated or over claimed on returns filed by individuals and businesses	
Remittance: Failure to pay outstanding tax-related debts owed by individuals, employers and businesses, and other government program debts owed to HRSDC.	

FILING AND REGISTERING NON-COMPLIANCE

The goal of the filing and registering compliance area is to ensure that taxpayers file a return and/or register for the GST/HST if they are required to do so. Our enforcement actions range from a simple request to file to more punitive measures, such as penalties and prosecution, and we make efficient use of available resources by focusing on early intervention. For example, this year, we piloted a project that identified new GST/HST registrants and new employers and contacted them, using existing telephony infrastructure, to provide an automated reminder of their first filing and/or remitting due date. Accounts are identified and strategies are applied at the first signs of non-compliant behaviour according to recognized risk factors.

Accounts that do not respond to early intervention measures are considered high-risk. We identify these accounts through various means including third-party data and risk models. These accounts require human intervention and are referred for escalating enforcement action. The CRA also undertakes projects aimed at identifying and addressing filing and registration non-compliance in cases where there are no records on the CRA databases as well as where new or additional information is obtained.

This past year, an evaluation of the Non-Filer/Non-Registrant program was completed. This evaluation will contribute to the renewal of the national program delivery model. The overall intent is to create program improvements that will, over time, contribute to increased short and longer term compliance with filing and registration requirements, thereby furthering the CRA's goal of making non-compliance more difficult.

Our activities extend to GST/HST registration requirements for businesses. Our estimate of the rate of registration compliance has remained consistently above our target over the past several years. Over the past year, 8,464 businesses were identified as required to register for GST/HST. By comparing our data with information from Statistics Canada, we estimate that 93% of businesses were registered to collect GST/HST during 2010-2011. This met our 90% target.

Our indicators	**Current target**	**2006-2007**	**2007-2008**	**2008-2009**	**2009-2010**	**2010-2011**
Canadian businesses that were registered for the GST/HST[1]	90%	97.8%	98.4%	95.8%	93.5%	93%
Individuals 18 years and older who filed their returns on time	90%	93%	92.5%	92.8%	92.8%	92.6%
Corporations – Taxable incorporated businesses that filed their returns on time[2]	90%	86.4%	85.8%	84.4%	85.5%	85.1%

[1] These estimates use the number of businesses who file timely returns as a proxy for registrants. The population of businesses includes some small businesses which are not required to register as part of the calculation. As a result, the estimate may understate the proportion of businesses who actually register to collect GST/HST.

[2] Almost all of taxable corporations used for this calculation filed their returns within 5 years, either voluntarily or as a result of our non-filer work.

In 2010-2011, our work to identify non-filers generated 722,487 returns from individuals and corporate taxpayers that had not met their filing requirements. To gauge the compliance of individual taxpayers with their obligation to file a timely return, we compare our data for individual filers 18 years of age and older with Statistics Canada's Census of Population data for this segment. For 2010-2011, 92.6% of this population filed their tax return on time, exceeding our 90% target. These estimates have consistently remained above the 92.5% level for every year since the 2001-2002 reporting year, providing a reliable trend for this high degree of voluntary filing compliance that we observe.

Our compliance rate estimates apply to those corporations which are taxable and have filed a T2 Corporation Income Tax Return showing that tax is payable. The incidence of timely filing among such corporations in 2010-2011 was 85.1%, a result which is comparable with past years.

Another important measure of our success in addressing identified filing non-compliance is the increase in the observable long-term filing rate by both individuals and corporations. Our research on filing behaviour shows that, of the taxpayers who did not file their return on time, a majority file these returns within five years after the year the return was due. For example, 93% of individuals and 86.4% of corporations filed their returns on time for the 2005 tax year and, over the subsequent five years 97.4% of individuals and over 99% of corporations had filed their 2005 returns. In addition to the long-term filing rates witnessed, our actions identified $2.8 billion in non-compliance in 2010-2011.

REPORTING NON-COMPLIANCE

Once a return is filed, we conduct various reviews and verification and risk assessment activities to identify areas where reporting by individuals, trusts, registered plans, and businesses is not consistent with taxpayers' obligation to report complete and accurate information. Once identified we proceed to address the highest-risk accounts.

Related Risk

There is a risk that certain segments of the taxpayer population will increasingly push the boundaries and not fully report income or fabricate expenses to purposefully understate their tax liabilities.

INDIVIDUAL FILERS

All tax returns from individuals are subjected to risk assessment review by CRA systems, including, where applicable, a comparison to third-party information from employers, financial institutions, and other sources. Doing so improves the accuracy and completeness of information provided by the taxpayer, and assists the CRA in the identification of non-compliance. In addition, this process permits non-compliance risk information about taxpayers to be compiled and refined, with filed information (such as types of deductions or credits) compared over a multi-year period. Risk scores obtained from this process enable us to perform a number of targeted reviews in each tax year that focus available resources on population segments and specific lines on the return that hold the greatest risk of non-compliance. At the same time, a review of a random sample of individual tax returns is conducted to learn about the non-compliant behaviour of the entire population of individual taxpayers with respect to key credits and deductions, and to measure the effectiveness of our targeted reviews.

In 2010-2011, we estimated that 17.6% of claims or deductions made by individuals on key tax credits and deductions not subject to third-party reporting were non-compliant, meaning they were disallowed following a review. The increase may be attributed, among other factors, to the change in deductions and credits that were reviewed in each program year.

Our Indicator	Current target	2007-2008	2008-2009	2009-2010	2010-2011
Key tax credits and deductions not subject to third-party reporting – Individuals[1]	Downward trend	14.8%	16.5%	15.4%	17.6%

[1] It should be noted that this type of non-compliance is found in a relatively small segment of the population of individual taxpayers.

One of our pre-assessment review programs is the Confidence Validity Program. Through this program, various deductions and credits on returns are reviewed and corrected before a notice of assessment is issued. During 2010-2011, we identified an average of $472 of additional tax assessed per review, for a total of $162 million in taxes additionally assessed. This represents a decrease of 5% over the previous year. The variance is attributed to our review strategies which adjust the volume of each deduction and credit reviewed each year.

Individual filers assessment programs	2007-2008	2008-2009	2009-2010	2010-2011
Confidence validity ($ million)	$126	$120	$171	$162
Processing review ($ million)	$190	$152	$201	$232
T1 matching ($ million)	$574	$623	$615	$600

While the Confidence Validity Program corrects returns before the Notice of Assessment is issued, our Processing Review Program selects files for review after the assessment notice (and any refunds) have been issued. The program promotes compliance and helps to maintain confidence in the fairness of our programs through increased education, effective risk-scoring systems, and a balanced approach to our file selection process. In 2010-2011, this program identified and assessed $232 million in additional taxes, an increase of 15% over the previous year.

Our T1 Matching Program compares information on an individual's tax return with information provided by third-party sources, such as employers or financial institutions. In 2010-2011, this program identified and addressed additional tax assessments of almost $600 million.

Effectiveness of targeted reviews	2007-2008	2008-2009	2009-2010	2010-2011
Ratio of average additional dollars assessed in targeted over random reviews	3.6	3.6	3.6	3.0

The objective of these three programs is not simply to assess dollar values but also to educate taxpayers by identifying common areas of misunderstanding. We gauge the effectiveness of our targeted reviews, by looking at the value of additional tax dollars assessed through them compared with random reviews. Over the 2007-2008 to 2010-2011 period, our targeted reviews under the Processing Review Program, were approximately three times as effective as random reviews. Because the volume of each deduction and credit examined change according to our annual review strategies, in addition to claims being added or dropped, the average dollars recovered, and the ratio of targeted to random, vary each year.

BUSINESSES

Identifying non-compliant businesses involves a combination of risk assessments, reviews, and audits. That's because research and historical data demonstrate that not all taxpayers approach their tax obligations in the same way. For example, while many pay their taxes willingly and on time, others require varying degrees of intervention by the CRA to meet their obligations. For that reason, audits are selected through an evidence-based approach that uses research, numerous risk models and past compliance history to identify population sectors at risk for non-compliance.

In 2009-2010, our Core Audit Program selected self-employed individuals, referred to as Small and Medium Enterprises (SME), for examination. Small business audits include owner-operated businesses, small corporations, and partnerships that have annual revenues of less than one million dollars. Medium-sized business audits typically include individuals with annual revenues of over one million dollars and corporations with annual revenues of between one million and $20 million[2] for income tax. Our auditors examine cases through telephone contact, letters, or face-to-face interviews.

In assessing small businesses that were subject to a random sample audit, we were able to estimate the percentage of businesses in this segment that are likely to be non-compliant to a significant degree. Non-compliant to a significant degree is defined as businesses that under report $5,000 or more in federal taxes.

Our Indicator	Current Target	2001-2002	2006-2007	2009-2010
Estimated percentage of self-employed individuals with significant non-compliance	Downward trend	8.6%	12.7%	12.2%

In 2010-2011, a non-compliance rate estimate was established for SME filers based on audits conducted during the 2009-2010 program year. The estimated rate of non-compliance was found to be 12.2%. This segment of the SME population has been reviewed twice previously: once in 2001-2002, when the non-compliance rate estimate for self-employed individuals was 8.6%, and again in 2006-2007, when the non-compliance rate estimate was 12.7%.

One of the ways we evaluate our success in identifying non-compliance is by tracking how frequently a case selected for an audit results in an adjustment. For the past year, the percentage of cases resulting in a change for SMEs was 80.3%, down slightly from 2009-2010. A recent international benchmarking study showed the CRA change rates for full SME audits fell within the mid-range of the rates identified by the other countries involved in the study. We consider the change rate to be a key indicator of our performance. For this reason, we intend to give consideration to the leading practices identified through this study to determine if they are suitable for use by the CRA.

Effectiveness of targeted self-employed individuals audits	2006-2007	2009-2010
Ratio of instances of non-compliance in targeted versus random reviews	3.8	3.8

Research work conducted through our Core Audit Program indicates that our targeted audits of the self-employed individual population are 3.8 times more likely to identify significant non-compliance than randomly selected audits. In other words, a random audit within this group identifies significant non-compliance 12.2% of the time. But when the audit is targeted based on our research and risk assessment, we discover significant cases of non-compliance 46.7% of the time.

In 2010-2011, we implemented the Research Audit Program (RAP) to replace the Core Audit Program. It conducts random audits that establish statistically valid levels of non-compliance within sectors of the Canadian economy. The RAP augments existing programs that gather risk intelligence at local, regional, and national levels and channels it into mechanisms used to establish workloads. We will begin gathering results from RAP assessments of the T1 Small and Medium Enterprises population in 2012.

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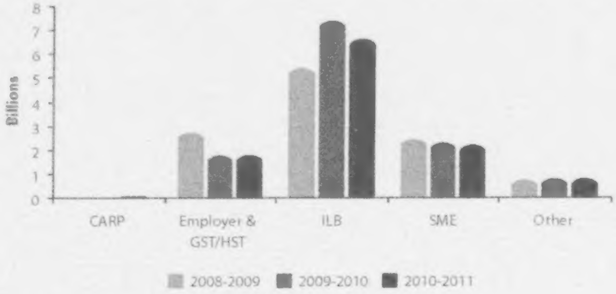
[2] The threshold level GST/HST audits of medium-sized business are registrants with revenues of between one million and $100 million.

Other SME-related activities include the Office Audit Program, Prepayment Risk Assessment Program, Specialty Audit Program, Film Industry Services Program, Non-Resident Audits, and International Waivers and Non-Resident Dispositions Program.

We are also enhancing our approach to ensuring compliance within the large business population. We assess risk levels using sector intelligence, CRA-based expertise, and information from our tax treaty partners. We further combine these resources with information related to the nature of the business in question and its current and past behaviour, including aggressive tax planning (ATP), which indicates the potential risk of non-compliant behaviour. This further evolution of our approach should enable us to focus our resources on those large businesses most at-risk of non-compliance. This will enhance change rates and encourage a level playing field for compliant businesses. For the past year, the percentage of cases resulting in a change for international large business programs was 94%.

In 2009-2010, we launched our Corporate Assessing Review Program (CARP). The main objective of the program is to validate the accuracy of our assessments by ensuring that corporations file accurate and complete information on their T2 Tax Returns and that reported amounts are consistent with applicable tax legislation. In 2010-2011, CARP reviewed more than 48,000 corporation returns generating assessments totalling more than $45 million dollars in additional federal and provincial tax. During this past year, we embarked on a number of reviews to ensure that tax reserves, pool balances, and tax credits were accurately represented based on businesses' past and present reporting. Through this work, we detected and reduced overstated pool balances by $43 million. These are amounts that would have been available to corporations to reduce future tax payable.

Figure 5 Value of identified business non-compliance



Data quality: Good

In addition to the audits and reviews we undertake, our employer withholding and GST/HST examination activities enforce employers' and taxpayers' obligations to withhold, report, and remit source deductions, taxable benefits, and GST/HST. To increase and encourage compliance, we use a balanced approach to identify and address non-compliance through the use of education, assisted compliance activities, and, where warranted, more rigorous actions, such as prosecutions. In 2010-2011, 2.2 million non-compliant cases were addressed. Although this represents a shortfall from our initial target of 2.6 million, it is explained by a realignment in workload which resulted in 500,000 cases being transferred to another area within the CRA. We also completed 556,227 reviews and exams and 15,056 GST/HST examinations which generated a total value of identified non-compliance of $1.6 billion.

Through a combination of our employer actions and our SME and large business audits and reviews, we identified $10.6 billion[3] of non-compliance for the 2010-2011 period. New this year is the introduction of a performance measure aimed at measuring the efficiency of our actions in identifying reporting non-compliance. This new measure (fiscal impact per audit FTE) demonstrates the value of our auditing work. For instance, in 2010-2011, each audit FTE addressed, on average, $2.9 million of fiscal impact for the large business population and almost $400,000 for the small and medium enterprise and other populations. Results for the most recent five years are available in our performance measurement framework found on page 49.

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[3] The figure for 2010-2011 is understated as results for the GST/HST Delinquent Filer Program were not available to be included in the calculation.

AGGRESSIVE TAX PLANNING

Aggressive tax planning (ATP) schemes are arrangements purposely undertaken to minimize tax liability. These transactions, often arranged by tax planners and promoters for individuals, trusts, and corporations, are intended to reduce, avoid, or evade Canadian taxes and may be inconsistent with the spirit and intent of the law.

Related risk

It is possible that some taxpayers who have an interest in reducing their tax liability through careful tax planning will employ abusive tax practices to achieve results beyond the spirit or objective of the law.

These schemes sometimes involve international transactions or the use of tax havens. Left unchecked, aggressive tax planning presents a risk to the integrity and fairness of Canada's tax system. Recognizing the problems inherent in relying on traditional audits alone, the CRA has a multi-faceted strategy to combat ATP.

The first component of the strategy is to strengthen legislation to reduce participation in ATP schemes. Over the reporting period, Finance Canada, with the support of the CRA, introduced proposed legislation that would require the mandatory reporting of tax avoidance transactions. This would provide an early warning system enabling us to gather information on tax avoidance schemes at an early stage and address them before they become a larger problem.

A second component is to use tax information exchange agreements, negotiated by Finance Canada, to reduce the ability of taxpayers to hide income and assets in overseas banks. Of note, Canada signed a *Protocol amending the Tax Convention* with Switzerland in October 2010.

The third prong of our strategy entails our work with international organizations such as the Seven Country Working Group, the Joint International Tax Shelter Information Centre and the Organisation for Economic Co-Operation and Development (OECD) to share intelligence and best practices to combat ATP.

In 2010-2011, we secured information from our partner countries which identified Canadian taxpayers participating in a significant ATP scheme. There was a large amount of media interest in this information and the resulting CRA action. Taxpayers are realizing these types of schemes are highly risky. Our Voluntary Disclosures Program continues to receive disclosures from taxpayers hoping to avoid penalties and prosecutions, by putting their tax affairs in order.

A final element of our multi-faceted strategy is to influence taxpayers by communicating our success in identifying ATP schemes, and outlining the consequences of tax avoidance and tax evasion. An example of the success we have had through communications is the reduction in the number of gifting tax shelter arrangements from 48,000 in 2006 to 10,000 in 2011. We achieved this reduction by identifying arrangements that appeared problematic, following up with audits of 100% of these tax shelter claims, targeting tax shelter alerts to participants, and following this up with a letter campaign.

CHARITIES

Registered charities in Canada are tax-exempt and can issue charitable donation receipts to donors. To maintain these privileges, registered charities must operate within the parameters of the *Income Tax Act*. In cases of serious non-compliance, contraventions can result in the revocation of the registered charitable status of the organizations involved. The overall level of compliance by registered charities with the requirements of the *Income Tax Act* is determined based on an analysis of the results of random audits conducted annually. For the past three years, audit results show that the overall level of compliance has been stable and confirm that the vast majority of registered charities are complying with legal requirements. While some charities required education on mostly minor compliance issues, very few serious issues of non-compliance were noted. For the third consecutive year, less than 4% of random audits resulted in a revocation action against a charity. In 2009 (the last year of complete data), 99% of registered charities filed an annual information return; of these, 61% of registered charities filed within the required six months of fiscal year end, with the remaining 38% having been filed late. Based on returns filed to date, we anticipate a similar filing rate for 2010.

UNDERGROUND ECONOMY

The underground economy (UE) remains a priority for the CRA. Underground economic activity is any legal business activity that is unreported or underreported for tax purposes. The UE undermines the competitiveness of Canadian businesses because it offers an unfair advantage to those who fail to comply with Canada's tax laws. UE activity is concentrated in sectors where cash transactions are prevalent between businesses and consumers, books and records are weak or non-existent, taxes are not deducted at source, third party reporting is absent, business-to-consumer transactions are generally widespread and services are commonly offered at a discount, and where there is greater acceptance of tax evasion by either individuals or by businesses. Compliant businesses and employers are put at a competitive disadvantage when UE activity takes place. It also deprives employees of access to social programs such as Employment Insurance (EI) and the Canada or Quebec Pension Plans (CPP or QPP), and makes it more difficult for consumers of UE products and services to seek recourse for poor workmanship or inferior materials. Participants in the UE effectively shift the burden of paying for government services and programs to compliant taxpayers.

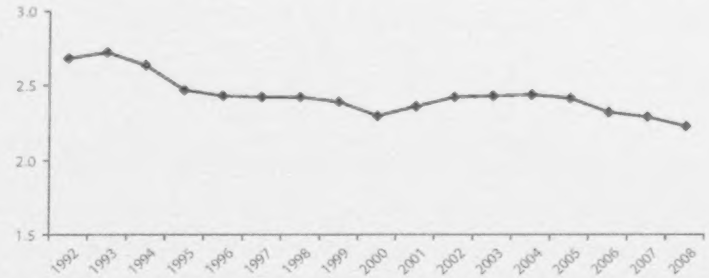
Related risk

A number of independent studies have demonstrated that societal values are changing and subsequently there is an increasing chance of potential tax non-compliance.

A recent study by Statistics Canada on the size of the underground economy relative to the Gross Domestic Product showed a reduction of half a percentage point since 1992. We will continue our efforts to combat this area of non-compliance.

Our UE strategy is to use a mix of outreach, education, communication, and compliance actions. This is supported by research and intelligence gathering and the systematic allocation of workloads to industry sectors with the highest risk. In 2010-2011, 78% of UE cases selected resulted in a tax assessment. These audits identified $595 million of unreported income with associated fiscal impact of $374 million. This amount represents an increase of 32% over the previous year.

Figure 6 Underground economy as a percentage of Gross Domestic Product



Source: Statistics Canada: *Estimating the Underground Economy in Canada, 1992-2008*

Data quality: Good

In addition to our ongoing efforts in this area, a number of specific initiatives were conducted during the year to improve our intelligence and focus our efforts. For example, the Federal-Provincial-Territorial Underground Economy Working Group completed the Trade School Initiative. This initiative combined focus group research and a quasi-experimental study to develop a prevention-through-education strategy by aiming appropriate messaging at an early stage in a typical career path, ideally before bad behaviours become entrenched. Construction trade school students were selected as the initial target audience and the initiative will be ready for a full scale launch in 2011-2012. As part our strategy to address the UE, we share best practices with other tax administrations. Over the reporting period, the CRA has taken the lead for OECD countries to write a paper on the cash economy and we are supporting the Netherlands which has the lead on writing the paper, "Right from the Start." This approach uses outreach and communications to target new businesses to ensure that "Right from the Start" compliance is encouraged.

We also initiate regional and local projects to identify and study emerging issues, conduct research and gather intelligence, gain industry knowledge by working with associations and other levels of government, and determine the complexity and the range of compliance risk treatments required to resolve the problems uncovered.

TOBACCO STAMPING REGIME

In 2010, Parliament passed legislative changes to implement a new tobacco stamping regime in Canada. The CRA responded immediately by developing the necessary framework of policies and procedures to manage the new tobacco stamping program. To ensure successful implementation, the CRA consulted regularly with stakeholders, including industry members. A detailed communication strategy was also developed that included industry outreach.

All implementation deadlines were met. We consider the successful execution of this initiative to be a very significant achievement.

GST/HST

The HST regime was extended to Ontario and British Columbia on July 1, 2010.[4] The HST now represents a significant source of tax revenue. In addition to significantly increased workload for the CRA, the combined federal and provincial rates entail increased compliance risks. The CRA is mitigating these risks through a dedicated GST/HST organization and increased focus on risk intelligence and assessment.

During 2010-2011, a review of business filings in our GST/HST pre-assessment program provided an early warning that a potentially significant number of large businesses would, perhaps inadvertently, not comply with HST reporting requirements for the recapture of input tax credits. This would normally result in audit action and the application of penalties. Our response was to take a proactive and constructive approach that involved acting on risk intelligence available from our systems to proactively communicate with businesses at risk of non-compliance to clarify their obligations and offer assistance where needed. Some 26,000 letters were sent to large registrants identified by our systems. Follow-up telephone calls were made to more than 15,000 businesses that were still at risk of non-compliance after the mail-out, and subsequent calls are still being placed to a subset of these businesses that remain at risk. We have determined that compliance action, including re-assessment and penalty application, is necessary and appropriate for a smaller number of businesses and are proceeding with these steps. The distribution of tax revenues collected by the CRA to participating provinces is dependent on registrants reporting full and accurate information about their taxable expenses. The approach followed in this instance protected the revenue base of our client governments through early identification of businesses at risk, proactive compliance communication based on intelligence, assistance and follow-up. In addition, the presence of the CRA within the community of large taxpayers may have prevented significant reporting non-compliance from arising, and averted important audit expenses and compliance costs for businesses.

ENFORCEMENT

While the CRA has a sustained audit presence across sectors, our Special Enforcement Program is focused on addressing the small minority of taxpayers who are engaged in more serious acts of non-compliance. Our Special Enforcement Program conducts audits and undertakes other civil enforcement actions against individuals and businesses suspected of, or known to be, deriving income from illegal activities. Suspected significant cases of fraudulent non-compliance are dealt with by our Criminal Investigations Program, which investigates and refers cases for prosecution to the Public Prosecution Service of Canada (PPSC). These cases can result in penalties, court fines and up to five years of incarceration. We communicate the consequences of fraud committed against the Canadian public, to maximize the deterrent effect of these convictions. The CRA works with regional communications advisors to distribute news releases containing details of convictions on tax evasion to local, regional, and national media.

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[4] On August 26, 2011 the Province of British Columbia announced that it will return to the provincial sales tax. The transition period is expected to take a minimum of 18 months. During this period, the CRA will continue to administer the HST in British Columbia.

In 2010-2011, the CRA distributed 235 news releases on convictions which were used to generate articles and broadcast news topics. In 2010-2011, a total of 204 taxpayers were convicted of tax evasion or fraud. The courts imposed $22.8 million in fines and 47 years of jail sentences. For the reporting period, 129 income tax and GST/HST investigations were referred to the Public Prosecution Service of Canada.

The nature of this taxpayer segment makes it difficult to measure the influence of our enforcement program on others who may be considering similar non-compliant behaviour. This is, in part, because the drivers of non-compliant behaviour among this population may go beyond strictly attempting to avoid taxes. Other criminal considerations may be at play.

Enforcement activities	2009-2010	2010-2011
Cases completed	928	834
Enforcement actions (including investigations))	3,374	3,388
Convictions	216	204
PPSC Conviction Rate	98%	100%
Courts imposed fines (million)	$11.9	$22.8
Jail sentences (years)	58	47

The effectiveness of CRA enforcement programs and activities is essential to achieving its compliance objectives. In 2010, a multi-year evaluation of the CRA's enforcement programs was completed. The findings from the report are being incorporated into action plans to support a more focused approach for the Criminal Investigations and the Special Enforcement programs, which will enhance file selection and further build upon partnerships with the Public Prosecutions Service of Canada and law enforcement agencies. The rate of conviction is very high due to case selection. Cases are selected for prosecution based on their expected outcome as there is a high cost to this type of compliance intervention. In this way, Canadians and Canadian businesses are reassured that the most egregious cases are pursued to the fullest extent. The results achieved during 2010-2011 support our assessment that we contributed to making non-compliance more difficult.

SCIENTIFIC RESEARCH AND EXPERIMENTAL DEVELOPMENT PROGRAM

The CRA oversees the integrity of various tax incentives that promote economic growth in Canada, such as the Scientific Research and Experimental Development (SR&ED) program. The SR&ED program is the largest single source of federal government support for industrial research and development. The CRA strives to deliver the tax incentives in a timely, consistent, and predictable manner, while ensuring businesses prepare their claims in compliance with tax laws, policies and procedures.

During 2010-2011, the SR&ED program provided about $3.5 billion in tax assistance to over 21,000 claimants. In addition, as a result of our risk assessment process, in 2010-2011, we identified and addressed $473 million of non-compliance, an increase of 5.6% from the previous period.

REMITTANCE

Once an assessment is completed through self-assessment, or re-assessed through our subsequent verification actions, taxpayers must remit any amounts due. We use various means to collect the amounts that are owed to the Government of Canada in order to protect Canada's revenue base.

Related risk

There is a risk that some taxpayers do not, or are unable to pay their taxes and fulfil their obligations

Almost all reported taxes are paid on time by individuals and businesses. In cases where monies owed are not paid when they become due, we pursue taxpayers using a range of collection and enforcement actions. To do so, we use a risk-based approach to identify the right compliance response for debtors, ranging from helping individuals further understand their obligations, to undertaking swifter and firmer responses with those whose history demonstrates a need for such action. The CRA manages the federal government's largest debt collection service, collecting debt arising from taxes, related interest, and penalties owed to the Government of Canada. A recent international benchmarking study showed the CRA has the second lowest cost to collect a dollar of debt among the ten participating tax jurisdictions for the period studied.

Our indicators	Current target	2006-2007	2007-2008	2008-2009	2009-2010	2010-2011
Individuals who paid their reported taxes on time	90%	92.9%	91.5%	93.2%	93.7%	94.3%
Percentage of payable corporations taxes paid on time	90%	90.9%	92.4%	92.2%	93.5%	93.5%

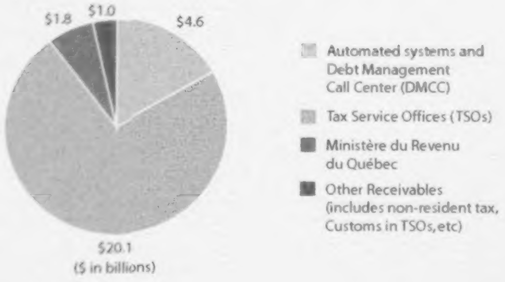
In 2010-2011, almost $388 billion in taxes and duties were processed by the Agency. Of this amount, more than 97% was received within the current fiscal year. As indicated in the chart below, this situation has been stable over the past four years and is indicative of our receivables being well managed. The international benchmarking study referenced earlier noted that the CRA ranked first among the ten participating tax jurisdictions, for the period studied, in the collection of debt as a percentage of its revenue.

Gross Receipts and Receivables	2007-2008	2008-2009	2009-2010	2010-2011
Gross Receipts and receivables ($ billion)	371	366	361	388
Inventory less than 1 year old / Gross Receipts and receivables	2.5%	2.7%	2.8%	2.8%

In 2010-2011, our collections area continued to identify efficiencies and strategies related to current workloads as well as new business. As one example, our Debt Management Call Centre started handling another revenue line, deductions from employee salaries remitted by employers. This allows collectors at our Tax Services Offices to focus on more complex cases for these types of accounts. In preparation for the amalgamation of our national and regional pools into one national inventory, we centralized certain accounts, creating Centres of Expertise for these particular workloads. This past year, collections work related to the Harmonized Sales Tax (HST) on behalf of British Columbia and Ontario was initiated. This work has led us to examine our current practices for collecting GST, and has resulted in an enhanced focus on improved workload management practices and increased use of risk management, since it is anticipated that the introduction of HST will have an impact on the level of tax debt in this revenue line.

Managing tax debt poses a significant challenge since levels of indebtedness are strongly influenced by our external environment. According to the OECD's 2010 Comparative Information Series report, tax debt is a growing problem for the majority of OECD countries. We have implemented strategies to address this issue, including our Payment Compliance Action Plan, which addresses the underlying cause of payment non-compliance at the behavioural level. Nonetheless, we anticipate that the level of tax debt will continue to grow over the short to medium term.

Figure 7 Allocation of year-end tax debt between TSOs, Automated Systems and DMCC, MRQ, and Other Receivables strategies



Data quality: Good

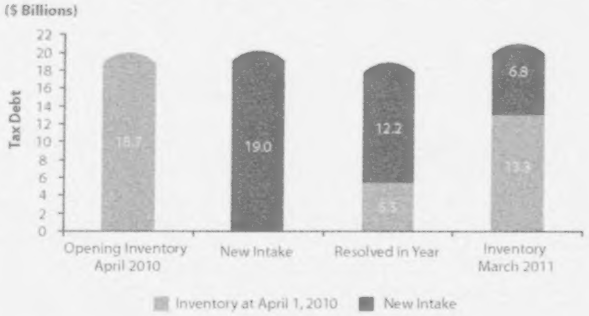
At the end of the 2010-2011 fiscal year, our total tax debt inventory rose to about $27.4 billion, an increase of $2.4 billion over the prior period. This debt includes accounts for which a pending resolution has been reached (for example, the taxpayer has agreed to pay the debt over a specified time) but the debt has not yet been paid in full.

Early determination of our ability to collect debt facilitates both timely and efficient debt collection, since the longer the debt exists, the harder and more expensive it is likely to be to collect. For this reason, we continued to rely on our Debt Management Call Centre (DMCC), which addresses high volume, low-risk tax debt at a minimal cost. The DMCC represents a cost-effective early intervention with non-compliant taxpayers and, this year, our data mining model allowed us to change our business rules to adjust the timing of our attempts to resolve debt based on the likelihood that a taxpayer will self-resolve without intervention. The DMCC allows our Tax Services Office (TSO) agents to focus on addressing more complex, higher-risk accounts that involve the use of escalating collection measures, including legal and enforcement actions, to deal with non-compliant taxpayers.

Resolution of tax debt by strategy ($ billion)	2009-2010	2010-2011	Change
Automated and call centres	$15.3	$16.4	7.2%
Tax Service Offices	$14.3	$17.7	23.8%
Total tax debt resolved	$29.6	$34.1	15.2%

Our automated strategies, including our Debt Management Call Centres and our Tax Services Offices addressed a total of $34.1 billion of tax during 2010-2011. When compared to results from the previous year, this total represents an increase of 15.2%. Included in this result are amounts totalling $2 billion that were deemed to be uncollectable and have consequently been written-off. A recent international benchmarking study discussed the prevailing practices of other tax jurisdictions. The study noted that the CRA maintained, for the period studied, the lowest percentage of write-off to total tax revenue among the ten participants. In addition, it is important to note that this is an essential administrative function that is key to maintaining a healthy accounts receivable portfolio. The process is governed by both the *Financial and Administration Act* and the *Bankruptcy and Insolvency Act*, whereby accounts must meet prescribed criteria before being subject to write-off.

Figure 8 2010-2011 TSO Intake, Resolution, and Inventory



Data quality: Good

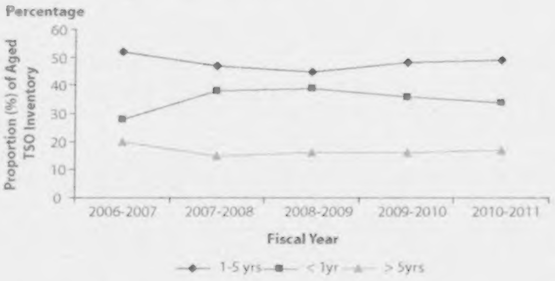
As explained earlier, timely resolution of debt facilitates our collection efforts. To assess our performance in addressing tax debt on a timely basis, we expect to resolve at least 60% of the TSO intake of new debt in the year of intake. In 2010-2011, we achieved 64.4%, exceeding our target.

The $17.7 billion tax debt we resolved in our TSOs represents 93.1% of the dollar value of the intake of new debt in the past year. This exceeded our target of 90%, indicating that we are successfully managing the higher risk inventory addressed by our TSOs.

As shown in Figure 9, the proportion of the age segments of our debt inventory has remained relatively stable over the last five years. This trend confirms that we are managing all segments of the tax debt portfolio in a consistent manner. The international benchmarking study noted previously also ranked the CRA second out of the ten participating tax jurisdictions with respect to debt aged less than one year for the period studied.

At the end of 2010-2011, debt over five years old represented 16.9% of the inventory. In absolute terms, the dollar value of inventory greater than five years old at the end of 2010-2011 was $3.4 billion, which represents an increase of approximately $500 million from the previous year, but remains within our targeted threshold of 3.5 billion.

Figure 9 Age of TSO Tax Debt



Data quality: Good

GOVERNMENT PROGRAM DEBT COLLECTION ACTIVITIES

The Government of Canada's programs' debt collections include defaulted Canada Student Loans, Employment Insurance overpayments, and other debts on behalf of Human Resources and Skills Development Canada. All new debts are now handled by our Debt Management Call Centre before being transferred to a TSO agent. In 2010-2011, we collected over $613.9 million, or $57.5 million more than our target.

CONCLUSION

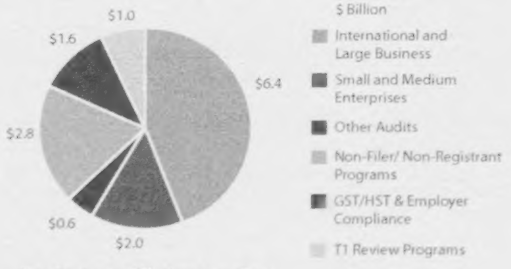
OUR CORE BUSINESS OUTCOME	**YEAR**	**PERFORMANCE RATING**	**DATA QUALITY**
Identified non-compliance is addressed	**2010-2011**	**Met**	**Good**

The Canadian tax system is based on self-assessment and relies on voluntary compliance supported by taxpayers' trust in the CRA's administration of tax laws. Recognizing that a small portion of individuals and businesses may unintentionally or intentionally fail to fully comply, we use a wide range of mechanisms to deter non-compliant behaviour, identify non-compliance on a risk basis, and correct the non-compliance when we identify it.

Making non-compliance more difficult is a challenging objective. Our strategic indicators, which show us trends in broad populations of taxpayers, show high levels of compliance with registration and filing requirements. While filing rates reached 97.4% for individuals and 99% for corporations within five years after their returns were due, other indicators suggest that reporting non-compliance has stayed steady or increased. For example, our most recent estimate of material non-compliance by self-employed individuals shows a relatively constant rate of about 12% of the population. In addition, we have not seen a decline in the levels of identified non-compliance by individuals who claim key tax credits and deductions that are not subject to third-party reporting. Action taken by the CRA is only one of many factors that influence these indicators, but they are important signals to us as we develop strategies to combat non-compliance.

In assessing our effectiveness at making non-compliance more difficult, we also consider the full range of results related to our activities, including whether we have met our operational targets, the steps we have taken to implement initiatives to improve our results, and how we responded to priorities that arose within the planning period. These measures are fundamental to our assessment, since they describe how well we deployed the resources we have available to identify and address non-compliance. A review of the chapter shows that we have met the targets we set for this year. The change rates we achieved, which met our expectations, along with the financially significant dollar value of identified non compliance of $14.4 billion that we addressed this past year, demonstrate our enhanced understanding of the risks associated with non-compliant behaviour.

Figure 10 **Non-compliance addressed through our returns and reporting compliance activities**[2]



Note: Results may differ due to rounding

Data quality: Good

At the end of 2010-2011, total tax debt reached about $27 billion. Influences such as the residual effect of the recent economic slowdown and the adoption of the HST by the provinces of Ontario and British Columbia, appear to be among the factors that contributed to this increase. We are concerned about rising debt levels and, in response, applied new strategies to address debt inventories and to better balance our debt management workloads. As a consequence, we resolved 15% more tax debt in 2010-2011 than the previous year, bringing us back into line with levels of success from 2008-2009. In addition, we achieved good results in the percentage of intake to our Tax Services Offices that was resolved in the year of intake, reaching a rate of 64.4%. We consider these results as key indicators of our success in addressing payment non-compliance.

These accomplishments have led to our assessment that we have met our core business outcome.

KEY VOLUMETRICS

Returns compliance – 722,487 returns were obtained from individuals and corporate taxpayers who had not filed their returns, 8,464 GST/HST non-registrants were identified resulting in $2.8 billion of identified non-compliance.

Reporting – International and large business programs and the small and medium enterprise programs conducted 294,868 audits and examinations, resulting in a fiscal impact of $8.3 billion. Our other audits achieved a fiscal impact of $0.6 billion. 556,277 employer reviews and exams and 15,056 GST/HST examinations were conducted, achieving $1.6 billion of identified non-compliance.

Remittance – The TSO cash collections totalled $15.7 billion. We resolved over 93% of the dollar value of new TSO debt intake.

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2. The figure for 2010-2011 is understated as results for the GST/HST Delinquent Filer Program were not available to be included in the calculation. In addition, $1.023 billion of fiscal impact was withdrawn during 2010-2011 through the resolution of double taxation issues with Canada's treaty partner countries. This amount had been included in our program results for prior years. The value of identified non-compliance presented in the figure above may be reduced through opportunities for taxpayer redress and some of the value may be determined to be uncollectible.

OUR PERFORMANCE MEASUREMENT FRAMEWORK – MAKING NON-COMPLIANCE MORE DIFFICULT

Our indicators	Current target	2006-2007	2007-2008	2008-2009	2009-2010	2010-2011	Rating
Filing and Registering							
Identified non-compliance for T1/T2 non-filers and GST/HST non-registrants ($ billion)	Upward trend	$2.4	$2.4	$2.4	$2.8	$2.8	M
Reporting							
Percentage of cases resulting in a change:							
International and large business program	90%	92%	94%	95%	96%	93.7%	✓
Small and medium-sized enterprises	75%	80.2%	79.6%	80.9%	81.1%	80.3%	✓
– Underground economy	75%			80%	79%	78%	✓
Fiscal impact[1]							
International and large business ($ billion)		$4.9	$5.7	$5.2	$7.2[2]	$6.4	
• Fiscal impact generated per audit FTE[3] ($ million)	$2.7	$3.6	$4.0	$3.0	$3.5	$2.9	✓
Small and medium-sized enterprises ($ billion)[4]		$2.5	$2.1	$2.2	$2.1	$2.0	
• Fiscal impact generated per audit FTE ($ million)	$0.35	$0.44	$0.39	$0.39	$0.40	$0.39	✓
Other audits ($ million)		$556	$544	$545	$599	$626	
• Fiscal impact generated per audit FTE ($ million)	$0.39	$0.45	$0.45	$0.39	$0.40	$0.42	✓
Overall fiscal Impact ($ billion)		$7.9	$8.4	$8.0	$9.9	$8.9	
• Overall fiscal impact generated per audit FTE ($ million)	$0.9	$0.96	$1.04	$0.90	$1.15	$1.02	✓
Dollar value of other identified non-compliance							
Identified non-compliance for Employer/payroll/GST/HST Trust Accounts ($ billion)	Upward trend	$2.4	n/a	$2.5	$1.6[5]	$1.6	✓
Remittance							
Percentage of TSO intake resolved in the year of intake	60%	66.7%	60.4%	62.7%	54.6%	64.4%	✓
Dollar value of TSO production as a percentage of dollar value of TSO intake of new accounts receivable	90%	89.9%	82.6%	93%	95.5%	93%	✓
Dollar value of accounts receivable over five years old ($ billion)	<$3.5	$3.0	$2.6	$2.8	$2.9	$3.4	✓

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[1] Fiscal impact targets are used to measure overall performance of the CRA for planning purposes. Individual quotas are not assigned.

[2] The two billion dollar increase over 2008-2009 is attributable to two audits which were unusually large in nature.

[3] This includes all support staff, auditors, management, and executives who report to the audit functional area.

[4] This includes the fiscal impact generated through our work in addressing the underground economy

[5] GST/HST delinquent filer program results are not included. Production and identified value of non-compliance results were unavailable for the two most current periods.

✓	Met	M	Mostly met	✗	Not met	n/a	Not available	N/A	Not applicable

RESULTS AGAINST 2010-2011PLANNED DELIVERABLES

This past year, the CRA took steps to implement the initiatives listed below to make non-compliance with Canada's tax laws more difficult. The tables also identify the status as of the end of the past fiscal year for each commitment related to these initiatives to be delivered in 2010-2011 as set out in our *Corporate Business Plan 2010-2011 to 2012-2013*.

The status of a deliverable falls into one of three categories:

Completed – All planned activities related to the deliverable were finished on or before March 31, 2011.

In progress – At least one activity related to the deliverable was not completed prior to the end of the fiscal year.

Not started – No activities were begun by March 31, 2011, in relation to the deliverable.

Where no deliverables were to be completed during the 2010-2011 fiscal year for an initiative, we have inserted the abbreviation N/A (not applicable).

INITIATIVE – ENHANCE STRATEGIES TO MANAGE PAYMENT NON-COMPLIANCE

DELIVERABLES	STATUS
Implement Phase II of the insolvency strategy	In progress

INITIATIVE – IDENTIFY AGGRESSIVE TAX PLANNING SCHEMES MORE EFFECTIVELY

DELIVERABLES	STATUS
Enhance our risk assessment and identification of high-risk international tax avoidance cases	Completed

INITIATIVE – IDENTIFY NON-COMPLIANCE IN THE UNDERGROUND ECONOMY MORE EFFECTIVELY

DELIVERABLES	STATUS
Expand our underground economy identification projects	Completed
Evaluate the results of the initial phase of our Electronic Suppression of Sales Strategy	In progress
Develop a suite of performance measures to assess the progress of our Underground Economy initiative	In progress

INITIATIVE – USE ENHANCED RISK ASSESSMENT TO IDENTIFY NON-COMPLIANCE BY EMPLOYERS AND GST/HST REGISTRANTS

DELIVERABLES	STATUS
Develop a risk-based compliance framework for personal service corporations	Not started

INITIATIVE – IMPLEMENT AN ENHANCED TOBACCO STAMPING REGIME

DELIVERABLES	**STATUS**
Develop proposed regulatory amendments and stamping regime guidelines	Completed
Establish stamp acquisition sites	Completed
Implement new excise stamping regime if approved by Parliament	Completed
Develop communication strategy including outreach activities	Completed

INITIATIVE – ENHANCE THE ADMINISTRATION OF THE SR&ED

DELIVERABLES	**STATUS**
Increase the program's scientific capacity and level of service to claimants	Completed

INITIATIVE – USE BETTER RISK ASSESSMENT TO DETECT AND CORRECT REPORTING NON-COMPLIANCE

DELIVERABLES	**STATUS**
Evaluate our current compliance risk framework / strategies to optimize the file selection process	In progress

INITIATIVE – IMPROVE THE DETECTION AND DETERRENCE OF NON-COMPLIANCE IN OUR CHARITIES PROGRAM

DELIVERABLES	**STATUS**
Identify and audit all known charities participating in tax shelter arrangements	In progress
Continue the false receipting pilot project	Completed
Identify and audit all charities suspected of being involved in false receipting	In progress
Target outreach and education to issues related to serious non-compliance schemes through Webinars, newsletters, awareness campaigns, etc.	Completed
Implement a tool set for CRA employees to deliver CRA's mandate under the *Charities Registration (Security Information) Act*	In progress

CHAPTER 5

MAKING IT EASIER TO RECEIVE THE RIGHT SOCIAL BENEFITS

WHAT IT IS

Our benefit programs touch the lives of over 20 million Canadians who depend on the Canada Child Tax Benefit, the GST/HST credit, and Children's Special Allowances to improve their standard of living and quality of life. The CRA issues benefits payments under these important federal programs. We also deliver the Universal Child Care Benefit on behalf of Human Resources and Skills Development Canada, as well as the Disability Tax Credit, and other benefit and credit programs and services on behalf of federal, provincial, and territorial government clients.

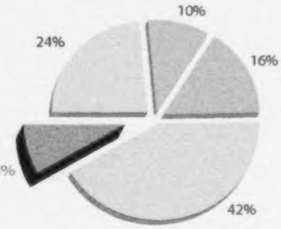
We continually assess our internal activities to ensure that our processing systems are reliable and that we are on target. However, we recognize that accurate and timely processing is only part of the equation. Individuals must also provide timely and accurate information in order to receive prompt payment of the correct benefits. The ability and willingness of benefit and credit recipients to provide reliable information, as soon as there is a change in their status that may affect their benefit calculation, is essential to our success.

The goal of these activities is to provide accessible information and services to Canadians about benefits and credits to which they may be entitled and ensure they receive the correct benefits in a timely fashion.

The information below sets out the overall spending levels for benefit programs over the period covered by this report

Spending Profile

Total spending: $4.4 billion



(in thousands of $)

- ▨ Building trust to promote compliance $452,562
- ▨ Strengthening service to make compliance easier $704,572
- ▨ Making non-compliance more difficult $1,846,313
- ▨ **Making it easier to receive the right social benefits $369,838**
- ▨ Maintaining business sustainability $1,042,551

(in thousands of $)

Total authorities
$369,263

Actual expenditures
$369,838

Variance
($575)

Full-time equivalents
1,437

WHAT WE ACHIEVED DURING 2010-2011

Improvements to our programs and service delivery helped more Canadians to learn about, access and receive prompt payment of the broad range of benefits and credits to which they are entitled:

- We introduced 19 new programs and services, bringing the total to 115;
- 99.8% of payments were issued on time;
- There was an increase of 62% in visits to Benefits related to Web pages of My Account; and
- There was a 66.7% jump in the number of provinces using the Automated Benefits Application service.

WHERE WE GO FROM HERE

We will explore ways to address the aging benefit delivery information technology infrastructure to meet the evolving expectations of our recipients.

PROVIDING INFORMATION AND SERVICE

Providing information written in plain language makes it easier for individuals to understand programs and comply with legislation. Offering information in a variety of formats that give Canadians several options to apply and register for programs also makes it easier for people to access benefits and credits. These were our priorities during 2010-2011. For example, based on feedback from usability testing, we redesigned the child and family benefit pages of My Account to be more user friendly. As well, we developed a new compact disk so people with or without disabilities can have alternate access to Disability Tax Credit information and applications.

E-services are growing in popularity among benefit recipients. There was an increase of 61.8% over the last year in visits to Benefits related Web pages of My Account. We attribute this trend to several things including enhancements to our web pages and providing access to recipients legal representatives to the Benefits Online Application and View Children in my Care screens.

Another example of enhanced service for Canadians is the Automated Benefit Application (ABA). The ABA enables Canadian newborns to be registered automatically for the federal and provincial benefit programs we administer. This eliminates the need for a separate application for each initiative and the related processing time, speeding delivery of payments to recipients. In 2010-2011, the number of provinces participating in the ABA program increased from three to five with the provinces of Ontario and Quebec joining in July 2010.

Deliverables	2009-2010	2010-2011	Change
Number of visits to My Account (Benefits)	2,555,109	4,135,155	61.8%
Number of provinces using the Automated Benefits Application service	3	5	66.7%
Number of taxpayer calls answered by an Agent	3,591,576	4,192,007	16.7%

Although e-services are fast becoming Canadians' preferred choice, many people still rely on the telephone for prompt access to information and services. Information exchanged over the phone can be critical to timely account updates and accurate benefit and credit calculations. In 2010-2011, the total of benefit calls (CCTB and GST/HST credit) handled by agents or through automation was over 9% higher than in 2009-2010. The increase was primarily due to calls related to two new credits: the Ontario Sales Tax Transition Benefit and the Ontario Sales Tax Credit. We were successful in meeting our target of 90% of callers able to reach us by telephone for the third consecutive year.

WORKING TOGETHER

Our legislation and the adaptability of our systems enable us to use our federal infrastructure to accurately calculate and efficiently deliver benefits and credits on behalf of our government clients. Legislation also enables us, in certain instances, to provide information to support the programs that other governments themselves administer.

Building and maintaining effective relationships with various governments makes it easier for them to work with us. This encourages them to make greater use of our delivery systems whenever their legislation allows it. This produces financial benefits for governments and, in turn, Canadian taxpayers. By working as a single delivery service on behalf of several levels of government, we reduce duplication and the overall cost of administering benefit programs. One Canada Child Tax Benefit (CCTB) cheque, for instance, can replace several separate payments when it includes the basic Child Tax Benefit, the National Child Benefit Supplement, the Child Disability Benefit, and one or more provincial or territorial elements. As one example, during 2010-2011, we worked in partnership with Human Resources and Skills Development Canada on a telephone survey of Universal Child Care Benefit (UCCB) recipients to determine the effectiveness of the program. CRA provided data for the analysis, as well as information to identify UCCB recipients for the survey.

Deliverables	2009-2010	2010-2011	Change
Number payment programs administered	35	39	11.4%
Number of data exchanges with federal, provincial, and territorial governments	61	76	24.6%
Total	96	115	19.8%

We gauge our progress as the provider of choice for benefit programs and services by the volume of programs and services we are asked to deliver each year for our federal, provincial, and territorial clients. A combination of new programs and services, and existing clients ongoing use of CRA services and infrastructure to deliver their initiatives, resulted in roughly 20% increase in the number of programs and services provided on behalf of other federal departments or other levels of government. This reinforces that we are considered to be a trusted partner by our government clients.

RELIABLE DELIVERY SERVICES

Reliable benefit and credit delivery depends on a number of systems. Our individual identification system is a core data source used across the CRA. Our individual credit determination (ICD) system determines entitlement to benefit and credit payments and also provides information, where authorized by law, that supports other governments in delivering their own programs. To make sure we can deliver reliable benefit and credit programs for years to come, we have made strategic investments in our system infrastructure.

TAX FILER REPRESENTATIVE IDENTIFICATION SYSTEM

The *Income Tax Act* and the *Excise Tax Act* contain sections that prohibit the disclosure of taxpayer information to third parties unless specifically authorized by that taxpayer. The Taxpayer Representative Identification System (TRIS) is an online database that permits CRA employees to verify whether they are authorized to deal with a third party representative on a specific taxpayer's behalf.

Timely processing of authorization requests ensures that a taxpayer's representative can interact with the CRA on their behalf as necessary. As would be expected, the number of requests to update representatives increases during filing season. Our service standard is to process a request within 20 business days during peak tax time (mid-March to mid-July) and within five business days during non-peak tax time (mid-July to mid-March).

While we mostly met our standard during peak tax time, we are still experiencing challenges associated with the timely routing of request forms during non-peak periods. Non-peak TRIS timeliness improved from 63% in 2009-2010 to 78.2% in 2010-2011. The introduction of electronically submitted forms and the use of 2D bar coding have improved our results. Steps are being taken to address delays and should allow us to improve our timeliness performance over the next two years.

PAYMENT ACCURACY

The correct calculation of benefits and credits relies on up to date information from the recipient. It is the responsibility of each recipient to provide us with complete and accurate information to maintain their eligibility and receive the proper amount of benefits.

To measure levels of compliance, we review and verify recipient information each year, contacting individuals to confirm details of their accounts. If the account information is incorrect, we update it. We use both random sampling and specific criteria to select accounts. Using these two methods allows us to gauge how effectively we are identifying groups that pose a high risk for potential over- or underpayments. More than 95.5% of the random accounts that were validated during 2010-2011 contained accurate information, while over 49.9% of the individuals contacted as a result of targeted reviews required account adjustments. Comparing these results validates that we used effective criteria to select accounts for review, that we ensured benefits were paid only to those who qualify, and that the correct amounts were issued.

Deliverables	2009-2010	2010-2011	Change
Number of CCTB payments issued	34,123,751	34,206,254	0.2%
Number of benefit applications processed	729,002	731,762	0.4%
Number of accounts reviewed through our validation process	212,017	226,379	6.8%

The results of the most recent benefits measurement study indicated that 95.5% of CCTB recipients provided us with correct information and were therefore receiving their proper entitlements. This met our target of 95% and represents an improvement over the previous year's result of 94.4%.

We regularly review the results of our processing activities to ensure that we meet the high timeliness and accuracy standards we have set. We confirm account adjustments and explain the information we use to calculate benefits through the benefit notices that we send to recipients.

We consider our calculation of benefit payments to be correct when the net value of CCTB overpayments is low. Overpayments or underpayments are often due to changes which took place but that were not indicated in a timely manner. The net CCTB overpayments increased by $38 million during 2010-2011, but this represented only 0.38% of the $10 billion in CCTB payments issued during the year, coming in under our established target of less than 0.4%. These figures suggest that we have been successful in delivering accurate payments to benefit recipients.

CONCLUSION

OUR CORE BUSINESS OUTCOME	YEAR	PERFORMANCE RATING	DATA QUALITY
Canadians have access to the benefits and credits to which they are entitled and related payments are timely and correct	**2010-2011**	**Met**	**Good**

Canadians' trust in the CRA can positively influence their willingness to comply with legislation. This applies to both tax and benefit programs. When we measure and report each year on the accuracy and the timeliness of our payments, we are offering individuals and our government partners evidence of the reliability of our services. Our results during 2010-2011 show that we successfully met the targets that we set in most cases.

The number of recipients and their representatives who viewed information and used the tools provided on the CRA Web site, as well as the many telephone calls to which we responded, indicate that our efforts to ensure that Canadians can access our information and services were effective. In addition, the fact that 99.8% of payments were issued on time underscores that benefit recipients can rely on the CRA's benefit and credit delivery system. We consider this strong performance to be an indicator that we provided timely and correct information and payments to eligible families and individuals.

KEY VOLUMETRICS

Benefit programs client services – We handled over 7 million telephone enquiries by agent or automation.

Benefit programs administration – We issued 110 million benefit payments totalling almost $22.3 billion to almost 12 million recipients. We determined $831 million in Disability Tax Credit (DTC) for 546,520 individuals. We processed 731,762 applications and elections, 854,849 account maintenance adjustments, and 1,006,264 in-year GST/HST credit account redeterminations.

OUR PERFORMANCE MEASUREMENT FRAMEWORK – MAKING IT EASIER TO RECEIVE THE RIGHT SOCIAL BENEFITS

Our indicators	Current target	2006-2007	2007-2008	2008-2009	2009-2010	2010-2011	Rating
Eligibility is established							
Percentage of potential entitled recipients who receive the CCTB[1]	95%	N/A	N/A	94.9%	N/A	N/A	N/A
Timely and accurate information							
Percentage of benefit recipients who receive payments on time	99%	99.9%	99.9%	99.9%	99.7%	99.8%	✓
Percentage of CCTB calls answered within two minutes of entering the agent queue	75%	75%	78.3%	78%	74.9%	76.4%	✓
Percentage of CCTB callers who reach our telephone service[2]	90%	80%	87.1%	94%	91.8%	91.6%	✓
Percentage of GST/HST credit callers who reach our telephone service[3]	90%	77%	83.2%	92.8%	90.7%	90.6%	✓
Benefit payments are correct							
Percentage of CCTB recipients who provide complete and accurate information and receive the proper entitlement	95%	95.5%	95.5%	92.9%	94.4%	95.5%	✓
CCTB overpayment debt as a percentage of payments issued	<0.4%	0.2%	0.3%	0.4%	0.1%	0.4%	✓
Percentage of benefit applications and marital status change forms processed on time	98%	99%	99.1%	97.4%	98.8%	98.7%	✓
Percentage of CCTB accounts reviewed that were adjusted	50%	61.4%	65.6%	58.8%	53.5%	49.9%	✓
Percentage of accurate payments when processing benefit applications and marital status change forms	98%	99.7%	98.9%	99.2%	99.4%	99.8%	✓
Percentage of accurate payments when processing account maintenance adjustments	98%	98.5%	98.4%	98.8%	100%	98.2%	✓
Provinces, territories, and federal departments rely on the CRA as a key service provider							
Number of programs and services administered	Upward trend	72	77	93	96	115	✓

[1] These percentages are only available for census years.

[2] The caller accessibility target for CCTB callers was raised from 80% in 2008-2009.

[3] There was no target for GST/HST credit callers before 2008-2009.

✓	Met	M	Mostly met	✗	Not met	n/a	Not available	N/A	Not applicable

RESULTS AGAINST 2010-2011 PLANNED DELIVERABLES

This past year, the CRA took steps to implement the initiatives listed below to make it easier to receive the right social benefits. The tables also identify the status as of the end of the past fiscal year for each commitment related to these initiatives to be delivered in 2010-2011 as set out in our *Corporate Business Plan 2010-2011 to 2012-2013*.

The status of a deliverable falls into one of three categories:

Completed – All planned activities related to the deliverable were finished on or before March 31, 2011.

In progress – At least one activity related to the deliverable was not completed prior to the end of the fiscal year.

Not started – No activities were begun by March 31, 2011, in relation to the deliverable.

Where no deliverables were to be completed during the 2010-2011 fiscal year for an initiative, we have inserted the abbreviation N/A (not applicable).

INITIATIVE – STRENGTHEN SERVICE TO BENEFIT RECIPIENTS

DELIVERABLES	**STATUS**
Deliver outreach for benefit recipients to promote our services	Completed

INITIATIVE – SUPPORT BUSINESS GROWTH AND PARTNERSHIPS

DELIVERABLES	**STATUS**
Implement benefit programs related to new HST agreements	Completed

INITIATIVE – STRENGTHEN BENEFITS DELIVERY INFRASTRUCTURE

DELIVERABLES	**STATUS**
Modernized Taxfiler Representative Identification System	Completed

INITIATIVE – ENSURE ACCURATE PAYMENTS

DELIVERABLES	**STATUS**
No deliverables were scheduled to be completed in 2010-2011.	N/A

BENEFIT PROGRAMS AND BENEFIT-RELATED SERVICES DELIVERED BY THE CRA

SIX FEDERAL BENEFIT PROGRAMS

- Canada Child Tax Benefit
- Children's Special Allowances
- Disability tax credit
- Universal Child Care Benefit[1]
- Goods and services tax / harmonized sales tax credit
- Working income tax benefit advance payments

[1] On behalf of Human Resources and Skills Development Canada

23 ongoing benefit programs for Provinces and Territories

	1st Year		1st Year
• British Columbia – BC Family Bonus	1996	• Nunavut – Territorial Worker's Supplement	1999
• Alberta Family Employment Tax Credit	1997	• Newfoundland and Labrador Child Benefit	1999
• New Brunswick Child Tax Benefit	1997	• Newfoundland and Labrador Seniors' Benefit	1999
• New Brunswick Working Income Supplement	1997	• Saskatchewan Low-Income Tax Credit	2000
• Newfoundland and Labrador Harmonized Sales Tax Credit	1997	• Newfoundland and Labrador – Mother Baby Nutrition Supplement	2001
• British Columbia – BC Earned Income Benefit	1998	• Ontario Child Benefit	2007
• Saskatchewan Child Benefit	1998	• British Columbia Low Income Climate Action Tax Credit	2008
• Northwest Territories Child Benefit	1998	• Ontario Senior Homeowners' Property Tax Grant	2009
• Northwest Territories – Territorial Worker's Supplement	1998	• Ontario Sales Tax Credit	2010
• Nova Scotia Child Benefit	1998	• British Columbia Harmonized Sales Tax Credit	2010
• Yukon Child Benefit	1999	• Nova Scotia Affordable Living Tax Credit	2010
• Nunavut Child Benefit	1999		

TEN ONE-TIME PAYMENT PROGRAMS

	1st Year		1st Year
• Relief for Heating Expenses (federal)	2000	• Energy Cost Benefit (federal)	2005
• British Columbia – BC Energy Rebate	2001	• Alberta 2005 Resource Rebate	2005
• Alberta Energy Tax Refund	2001	• Ontario Home Electricity Relief	2006
• Ontario Taxpayer Dividend	2001	• British Columbia Climate Action Dividend	2008
• Nova Scotia Taxpayer Refund	2003	• Ontario Sales Tax Transition Benefit	2010

76 DATA EXCHANGE AND DATA TRANSFER SERVICES

- Forty six income verification data exchanges with provinces to support programs
- Five data transfers with provinces to support top-ups for CRA-administered child benefit programs
- Six data exchanges and transfers to support the new Nova Scotia Pharmacare program, the British Columbia Low Income Climate Action Tax Credit, Ontario Senior Homeowners Property Tax Grant, Ontario Sales Tax Credit, Ontario Sales Tax Transition Benefit and to assist the ministère du Revenu du Québec in administering the *Quebec Taxation Act*
- Eleven National Child Benefit Supplement data exchanges with provinces and territories to facilitate the calculation of social assistance
- Two data transfers of income and child information to support administration of the Ontario Child Care Supplement and Quebec Family Allowance programs
- Six data exchanges and data transfers to support federal administration of the Employment Insurance Family Supplement, Guaranteed Income Supplement, Canada Learning Bond, Additional Canada Education Savings Grant, Registered Disability Savings Plan and Canadian Disability Savings Grant.

CHAPTER 6

MAINTAINING BUSINESS SUSTAINABILITY – MANAGEMENT RESULTS

WHAT IT IS

The CRA is widely recognized as a highly efficient and robust organization entrusted with administering many critical income tax and social and economic support policies on behalf of governments across Canada. To maintain sustainable high-quality tax, benefit, and related services, we must ensure that we have in place modern management practices and a sound infrastructure that ensure that we are able to comply with the accountability requirements of financial and administrative legislation, regulations, and policies.

WHAT WE ACHIEVED DURING 2010-2011

We made significant and strategic enhancements to our human resources capacity and capability, bringing on board 210 former employees from Ontario and British Columbia as we began the administration of the HST in those provinces. We maintained our information technology responsiveness and sustainability, secured the management of information, updated our Corporate Risk Inventory, and improved our communications strategy and tools. These improvements garnered high marks in several evaluation processes and recognition from other government departments:

- An assessment by the CRA Board of Management of 19 indicators concluded that our performance was "strong" for 15 and "acceptable" for four;
- The Management Accountability Framework assessment of six indicators conducted by the Treasury Board Secretariat gave the CRA three "strong" and three "acceptable" ratings; and
- Our Injury and Illness Policy, complemented by our Managing Injury and Illness Process Tool, has been recognized as a best practice within the Public Service and is now shared with three other government departments.

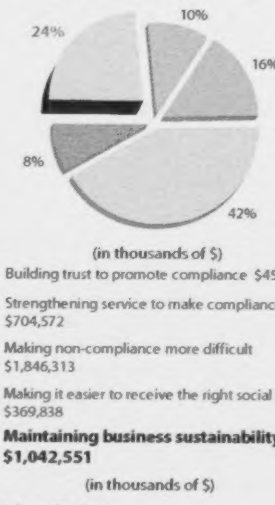
WHERE WE GO FROM HERE

Within an environment of rapid change and restrained spending, we will ensure that our internal management services continue to enable government program delivery and ensure the secure management of protected information.

The information below sets out the overall spending levels for business sustainability over the period covered by this report

Spending Profile

Total spending: $4.4 billion



(in thousands of $)

- ▨ Building trust to promote compliance $452,562
- ▨ Strengthening service to make compliance easier $704,572
- ▨ Making non-compliance more difficult $1,846,313
- ▨ Making it easier to receive the right social benefits $369,838
- ▨ **Maintaining business sustainability $1,042,551**

(in thousands of $)

Total authorities
$1,185,988

Actual expenditures
$1,042,551

Variance
$143,437

Full-time equivalents
8,570

MANAGEMENT OVERSIGHT

In 1999, the *Canada Revenue Act* established a unique governance structure for the CRA. This structure encompasses a direct, legislated relationship between the Minister of National Revenue and the Board of Management, as well as specific, legislated roles and responsibilities for each.

To make sure that we are effectively meeting our responsibilities for accountability, we use two complementary tools: the Management Accountability Framework (MAF) assessment conducted by the Treasury Board of Canada Secretariat and the Board of Management Oversight Framework (BoMOF) assessment conducted by our own Board of Management. Together, the two assessment tools provide a complete evaluation of the CRA's management performance.

In 2010-2011, our Board of Management conducted the fourth BoMOF assessment and gave our management team high grades. Out of the 19 indicators, none required attention or presented an opportunity for improvement. All were found to be "Strong" or "Acceptable".

Summary of MAF and BoMOF assessment ratings–CRA results

Two-year comparison by assessment ratings				
Assessment rating	**MAF 2009-2010**	**MAF 2010-2011[1]**	**BoMOF 2009-2010**	**BoMOF 2010-2011**
Strong	7	3	14	15
Acceptable	4	3	4	4
Opportunity for Improvement	0	0	0	0
Attention Required	0	0	0	0
Total Areas of Management/ Expectations Assessed	11	6	18	19

[1] The CRA was not assessed for certain areas during this current MAF round.

The 2010-2011 MAF assessment examined six indicators during the most recent MAF round. The CRA received "Strong" ratings for half of these indicators and "Acceptable" for the remainder.

The positive results of these assessments provide Canadians with assurance that the CRA is actively pursuing management excellence. A full report card of the MAF and the BoMOF assessments is displayed at the end of this section.

IMPROVING OUR HUMAN RESOURCES CAPACITY

The CRA environment is experiencing the effects of some important changes that continue to have an impact on our workforce and workplace. These include baby boomers leaving the workplace, taxpayers' changing needs, and the emergence of new technologies. The challenge lies in identifying where to focus our efforts and resources to ensure that we continue to attract, develop and retain a workforce that will enable us to meet both current and future business requirements.

In 2010-2011 we have taken an increasingly strategic and horizontal approach to aligning its human resources planning with its business planning. Our third consolidated Strategic Workforce Plan (ASWP) lays out how we will ensure that it acquires and develops the human resources talent necessary to achieve program objectives.

Related risk

Given the highly technical nature of our work, we may have difficulties in recruiting and retaining the right staff.

Since its first publication, the ASWP has matured into an effective planning tool that establishes the workforce goals and objectives that we must achieve to support the strategic priorities identified in our Corporate Business Plan.

The CRA implemented several components of the ASWP in 2010-2011:

- A Respectful Workplace intranet module was launched that added new topics throughout the year, including a video featuring our Commissioner.
- The CRA's Injury and Illness Policy was complemented by our Managing Injury and Illness Process Tool, which was promoted extensively throughout 2010-2011. It has been recognized as a best practice within the Public Service and is now shared with three other government departments.

- A voluntary survey of managers was completed in summer 2010 to gain a better understanding of employee mobility issues and challenges. The survey results were published to enable branches and regions to use this information in their development of tailored strategies.

The CRA also fulfilled commitments made in the ASWP related to leadership development, employee orientation, and learning strategies for key jobs:

- Various initiatives were undertaken to address the learning needs of managers as their careers progress. A manager Café was created on the Manager's Corner Web site to allow for the exchange of information and ideas. An Executive/Cadre Orientation Session and an Executive/Cadre Learning Program were launched to support newly recruited executives.
- Employee orientation is a key activity in developing the CRA's talent pool. In 2010-2011 we launched "A Good Start", an employee orientation program to provide new employees with helpful information about the organization. We also launched a web site to support managers in integrating new employees.

In addition, as a result of agreements with the provinces related to HST this past year, we welcomed new provincial employees into our organization. The first wave of provincial employees made a successful transition to the CRA in November 2010.

In 2010-2011 we undertook activities that reinforce our ongoing commitment to values, ethics, and integrity. An Integrity Framework is being developed to support the CRA in balancing two significant responsibilities: fostering our culture of integrity; and, preventing, monitoring, detecting, and managing integrity lapses. A "CRA culture of integrity value chain" was developed. Tailored orientation and training products help executives, managers, and employees recognize and fulfil their roles in a way that reflects the CRA's culture of integrity and its core values.

Our Discipline Policy and Procedures, which were extensively reviewed and enhanced in 2010-2011, contribute to the overall integrity of the CRA by clearly articulating the possible consequences when an employee fails to act in accordance with the values and expected standard of conduct. Appropriate disciplinary and/or administrative action (up to and including termination of employment) is promptly taken in all cases where employee misconduct has been determined.

INFORMATION TECHNOLOGY

Information technology (IT) is integral to our capacity to deliver our programs and services to Canadians. To maintain this capacity, we work diligently to ensure that our systems and infrastructure are robust, secure, reliable, and recoverable.

Related risk

It is possible that we may not be able to respond quickly enough to the increased diversity and growing expectations of external stakeholders, considering the rapidly changing world of IT.

SYSTEM UPDATES

In October 2010, CRA-Credential Management Service was implemented, significantly reducing the CRA's cost of authentication for e-services and positioning us to grow our e-service offerings cost-effectively.

In 2010-2011, we updated the Information Technology – Infrastructure Investment Plan (IT-IIP) to reflect both funding restraints and planned expenditures. Our Application Sustainability Program was enhanced by implementing a long range plan. We are addressing the challenge to update our aging applications and infrastructure, notably through the development of our strategic investment plan. We also agreed to share our technological expertise with Treasury Board Secretariat in developing a government-wide response to the Office of the Auditor General audit on IT sustainability.We have continued to maintain and enhance the productivity of the IT infrastructure through well planned and timely system upgrades.

WORKING WITH OTHERS

The CRA has entered into a tri-lateral arrangement with the Bank of Canada and Public Works and Government Services Canada to jointly acquire data centre services in the National Capital Region from the private sector. The data centre will support both our work and that of the Canada Border Services Agency (CBSA). The contract to build the new facility was awarded in 2010-2011. The state-of-the-art data centre will meet long-term availability, business continuity, security, and growth requirements, while incorporating "green" energy and environmental technology.

Environmental upgrades were implemented at all of our data centres in 2010-2011, while ensuring recoverability efforts continue to meet business requirements for all CRA systems. In the event of a disaster at Data Centre Heron we have improved our ability to respond and provide near-continuous availability to taxpayers and benefit recipients through the automatic transfer of mainframe services to Data Centre St-Laurent. We also dedicated significant resources to prepare our systems and infrastructure for the tax season, avoiding major outages, and decreasing the number of critical incidents that have a national impact during the filing season.

During the year, we maintained high levels of availability for the multiple national CRA and CBSA systems, while meeting the challenges of safeguarding our IT assets from accidental or deliberate security threats. We also worked with the CBSA to ensure that our shared IT services relationship, the largest within the Government of Canada, continues to be cost effective for the Government. In 2010, we updated our Memorandum of Understanding for the provision of Corporate Administrative Services to the CBSA.

AWARDS AND SECURE SYSTEMS

In October 2010, we were recognized as Distinction Award Honourees for four of our information technology projects at the Government Technology Exhibition and Conference. Our Quality Program has advanced the use of collaboration technologies such as Wikis, strengthening quality by supporting faster and wider communication of specialized knowledge.We continue to evolve the suite of social media tools available to CRA staff to support new ways of doing business.We further developed our IT strategy, focusing on our commitment to sustain and improve our performance by strengthening the governance of our IT investments and implementing best practices for risk management.

In addition, over the past year, we continued to advance our Security Modernization Program as we began deploying host intrusion protection technology and advanced preparations for the implementation of network access control technology. We also implemented the CRA-Credential Management Service on time and within budget, significantly reducing the cost of authentication for e-services and positioning the CRA to grow its e-service offerings in a cost-effective manner.

Our internal assessment of our success in the area of IT was reinforced by a third party assessment during this reporting period. In 2010, an expert advisor evaluated the CRA's IT infrastructure and concluded that the strategies we are implementing are consistent with industry best practices. In fact most major components of our IT infrastructure perform as well as or better than our peers.

ENSURE SECURE MANAGEMENT OF PROTECTED INFORMATION

Related risk

Potential threats to the security of the taxpayer information we hold could undermine Canadians' trust in the CRA.

Safeguarding Canadians' personal information is a priority at the CRA. In 2010-2011, we made investments in our security management systems in order to protect information. We are modernizing the National Audit Trail System (NATS) to streamline employees' access to our systems and to permit a more proactive approach to detecting unauthorized access. NATS was selected as a project to be included in the CRA's Strategic Investment Plan. We continued to advance the Identity and Access Management Project. Its objective is to standardize processes used to manage access to our data, thereby ensuring compliance with security policies and rules. We also advanced the Internal Fraud Control program, to ensure that the organization continues to take all reasonable measures to safeguard the assets, resources, information and reputation of the organization. This includes the development of tools and methodology to perform fraud risk assessments. The Internal Fraud Control Policy received Board of Management approval in June 2010. This policy defines internal fraud for the CRA and describes roles and responsibilities for control of fraud.

During the reporting period, the Information and Technology Security Strategy was produced to ensure an integrated and consistent approach to the delivery of our security program. It articulates a consolidated governance structure to further strengthen our ability to safeguard the confidentiality, integrity and availability of our information and technology assets. The Strategy was approved by the Board of Management in December 2010.

MANAGE BUSINESS INFORMATION

This past year saw the CRA take a major step forward in enhancing our information management practices. We developed our Information Management Strategy 2010-2011 to 2012-2013, the first of its kind for the organization. The strategy approved in 2010 will help us to align with emerging Government of Canada direction. It will also support:

- information sharing within the CRA and with clients and stakeholders;
- electronic information gathering in response to litigation;
- knowledge management; and
- accountable and transparent decision making.

We completed the development of the primary functional information classification scheme and retention periods for all program and most corporate branches. We also analyzed approaches to create and implement the detailed classification structure in three pilots and conducted research on metadata and recordkeeping. A recommendation to build the information management foundational elements necessary for future implementation of an electronic document management solution was presented in June 2011. Follow-up detailed planning will take place in 2011-2012 and 2012-2013.

REINFORCE ACCOUNTABILITY AND OVERSIGHT

We take accountability very seriously, recognizing that transparency is crucial to demonstrate results for Canadians and to gain taxpayers' trust. In 2010-2011, we tested the design and implementation of our key internal controls related to financial reporting on our activities and partially completed operational effectiveness testing of these controls. These efforts support the Chief Executive Officer's and Chief Financial Officer's annual Statement of Management Responsibility Including Internal Control Over Financial Reporting, which is published with the annual Financial Statements audit report.

Related risk

It is possible that with the constant evolution of the legislation, regulations, and policies related to financial management, accounting, reporting, and access to information, the CRA may inadvertently fail to meet all such requirements.

This work will provide assurance that appropriate internal controls over financial reporting are operating effectively and that our financial reporting is reliable. It ensures that significant financial controls, risks, and issues are identified and addressed as required by the Tax Collection Agreements, the TBS Policy on Internal Controls, and the *Financial Administration Act*.

Budget 2010 announced that federal government departments' and agencies' operating budgets would be frozen for two years at fiscal year 2010-2011 levels. This year, we developed a cost containment management plan to ensure that resources would be available to continue to support government priorities, as well as to fulfil our legislated responsibilities and maintain the delivery of core business, while respecting the need for fiscal restraint.

REFINE OUR STRATEGIC INVESTMENT PLAN

First introduced in 2009, our Strategic Investment Plan (SIP) provides decision-makers with the necessary information to effectively manage our portfolio of major infrastructure investment projects. It is integrated with our strategic themes and objectives, and consistent with the Treasury Board's Policy on Investment Planning. Annual updates to the SIP focus on ensuring the integrity and sustainability of our mission-critical systems, and allow for adjustments to be made in view of changing priorities, emerging risks, or government-wide initiatives that affect funding.

The second, 2010-2015 edition of the SIP was successfully developed and approved by senior management in the reporting period. During its development, particular attention was devoted to ensuring the plan adequately reflects our needs and priorities in terms of IT infrastructure and business/IT solutions. This theme was replicated throughout the various related SIP products, such as the Treasury Board Submission and Capital Plan prepared in support of the condition to access the funding for the T1 Redesign. The plan led to investment decisions and the granting of approval for a number of projects to initiate their planning stages and present a submission to our Agency Management Committee.

In 2010-2011, we also implemented an integrated project management tool, Project System, for major new investment projects. Project System was integrated into our Corporate Administration System to facilitate project and portfolio structuring and reporting. Among its benefits, the new tool enables the multi-year tracking of project costs and enhances our ability to compare planned costs to actual expenditures. In accordance with the plan for gradual implementation, seven projects were captured in Project System in 2010-2011 as they entered new stages of the approval process. To ensure the successful implementation of the new system, monthly discussion forums were held to gather feedback and provide training. A strong commitment to consultation and coordination with key stakeholders ensured that issues were addressed and that the most accurate financial information possible was captured in the system.

EMPLOY RISK MANAGEMENT CONSISTENTLY AND SYSTEMATICALLY

The Enterprise Risk Management program is designed to effectively manage risks through a systematic and comprehensive approach that is methodically integrated into CRA's decision-making, planning, and reporting processes.

An update to Our Corporate Risk Inventory 2009 was completed in 2010. The 2010 edition of the Inventory was developed by conducting interviews that provided a broad perspective on shifts in the internal and external environments that drove changes to the risks presented in the 2009 Inventory. The conclusion drawn from these interviews was that no significant changes to the enterprise risks have been identified that warrant additional action. Consequently, we are continuing to implement strategies for already identified risks requiring mitigation.

During 2010-2011, we consulted with national and international organizations from the public and private sectors as well as communities of expertise on leading practices. Based on our research findings, we adopted an improved enterprise risk management cycle. This multi-year approach will eliminate cycle overlap and process fatigue, provide a more horizontal outlook, and reduce inefficiencies while increasing the availability of more timely and relevant risk information.

Through an updated methodology and approach, we began the development of our Corporate Risk Profile 2011. We are using environmental scans, risk interviews and risk analysis to support risk responses and action plans. We have increased the level of risk management training throughout the organization, while improving the efficiency and content of our training programs. Additional work continues to develop a more agile and robust enterprise risk management regime.

ENHANCE SUSTAINABLE DEVELOPMENT

This past year was a transition year for the CRA in implementing our Sustainable Development (SD) National Action Plan. While we continued to focus on maintaining SD momentum, we began preparing the CRA to support Canada's first Federal SD Strategy. During 2010-2011, we implemented numerous activities under the SD National Action Plan including increasing SD awareness, the sustainable business travel course, green procurement, energy conservation, battery recycling program implementation, SD performance reporting and the paper use reduction. The following reflects the results of these efforts:

- 97% of employees are familiar with SD as it relates to the CRA (up 8% from 2007 and exceeding the 2010 target of 95%);
- A total of 1,400 employees completed the Sustainable Business Travel course;
- Over 49% of goods purchased in Synergy were "green";
- Energy waste was reduced by 25% in six pilot facilities;
- Battery recycling programs were expanded; and
- An updated SD Performance Reporting Tool, SD Criteria Tool, and new SD wiki space were launched.

As encouraging as these results are, average office paper use per employee increased by 4%, highlighting the need for continued efforts to meet our paper reduction commitments.

The CRA Sustainable Development Strategy 2011-2014 was developed to specify direction for future CRA SD activities.

ENHANCE THE INTEGRATION OF SOCIAL MEDIA

Due to the rising popularity of social media and increased demand from both Canadians and internal stakeholders to accelerate its use, we completed a Strategic Plan for External Communications through Social Media for 2010-2012. This plan establishes clear goals and objectives when using social media to communicate with Canadians and identifies planned activities in support of these objectives.

In 2010-2011, social media components were considered for all major communication and marketing or advertising initiatives. When deemed appropriate, social media tools, YouTube videos or videos for the CRA video cast window were incorporated into larger communication and marketing strategies. Social media was fully integrated into the tax-filing season strategy. For example, we used our new Twitter account to issue tweets about our popular Tax Tip series.

For the second consecutive year, we repeated our YouTube Video Contest – The Underground Economy: Not Your Problem? – as a component of our Compliance Communication Strategy. The objective of the contest was to continue the discussion initiated during the first contest about the downside of the underground economy.

THE CRA WEB SITE STRATEGIC PLAN

The CRA Web Site Strategic Plan 2009-2010 to 2011-2012 was approved in February 2010. This plan established key objectives. To meet them, we undertook a variety of initiatives to better understand and respond to Canadians' expectations for our Web services. The following highlights illustrate how we have moved the Strategic Plan forward:

Objective – Increase the overall awareness of the services offered on our Web site;

- We completed another phase of a multi-phase project to research and assess ease of use of the Web site, finding information, and increasing self-service for users.

Objective – Increase the ease of finding information by 5%;

- We conducted our 2010 CRA Web Site Individual Telephone and Online User Survey. The results showed high levels of satisfaction with our Web site, but also opportunities for improvements.

- We conducted usability testing with individual and business users to measure and track satisfaction levels and future expectations.
- We developed high-level business requirements for advanced Web site research to better understand usage patterns and success rates for user tasks.
- We completed an upgrade of a new search engine for our Web site to enhance search capacity and improve findability for users.
- We developed business requirements for a test environment on how users search to ensure results are of high quality.
- We actively participated in the User Experience Working Group, which was established by Treasury Board Secretariat to develop more usable Web sites for the Government of Canada.

Objective – Explore and implement where appropriate three new web technologies to facilitate communication and collaboration

- We improved our Web site infrastructure to support enhanced multimedia content.
- We continued with CRA-wide implementation of the Publishing Content Management Solution to provide efficiencies for current manual processes and ensure compliance with evolving Web standards.

COMPLETE OUR SERVICE STANDARDS REVIEW

In 2009-2010, we completed a comprehensive review our service standards to determine whether the CRA was communicating, monitoring, and reporting on the right services, with the right targets, in a way that is meaningful to, and effective for, clients. (Please see Schedule B).

CONCLUSION

During the past year, we continued to develop modern and innovative management practices and sound infrastructure that are necessary conditions to sustain the high-quality tax, benefit and related services we provide on behalf of governments across Canada. We are confident, based on internal and external assessments and our demonstrated achievements, that we again delivered on our management priorities through our strong performance, timely and responsive decision-making, improved planning and reporting.

KEY VOLUMETRICS

E-services – CRA-Credential Management Service was implemented, significantly reducing the CRA's cost of authentication for e-services and positioning the CRA to grow its e-service offerings cost-effectively.

Working with others – The CRA has entered into a tri-lateral arrangement with the Bank of Canada and Public Works and Government Services Canada to acquire data centre services in the National Capital Region from the private sector.

Retaining and mobilizing talents – We brought on board 210 former employees from Ontario and British Columbia through agreements made with the provinces related to the HST.

BOARD OF MANAGEMENT OVERSIGHT FRAMEWORK AND MANAGEMENT ACCOUNTABILITY FRAMEWORK

OUR RESULTS (TWO-YEAR COMPARISON)

Board of Management Oversight Framework – Assessment of performance

	2009-2010	2010-2011	Trend		2009-2010	2010-2011	Trend
Administration of the CRA				**Management of Services**			
Enterprise Risk Management	ST	ST	=	Service Strategy	AC	AC	=
Program Evaluation	AC	AC	=	Service Performance Measurement	AC	AC	=
Internal Audit	ST	ST	=	Service Redress Mechanism	AC	AC	=
Sustainable Development	ST	ST	=	**Management of Personnel**			
Management of Resources				Recruit and Retain the Right Talent	ST	ST	=
Financial Management	ST	ST	=	CRA Values and Ethics	ST	ST	=
Project Management	ST	ST	=	Learning	ST	ST	=
Asset Management	ST	ST	=	Workplace Practices	ST	ST	=
Procurement Management	ST	ST	=	**Organization of the CRA**			
Information Technology (Investment)	ST	ST	=	Internal Accountability Structure	ST	ST	=
Information Technology (Security)	ST	ST	=	Governance	ST	ST	=

Management Accountability Framework – Assessment of Performance

	2009-2010	2010-2011	Trend		2009-2010	2010-2011	Trend
Corporate Performance Framework	ST	AC	↘	Information Management	AC	AC	=
Organizational Contribution to Government-Wide Priorities	ST	n/a	*	Financial Management and Control	AC	AC	=
Quality of Treasury Board Submissions	AC	n/a	*	Security and Business Continuity	ST	n/a	*
Performance Reporting	ST	ST	=	Citizen-Focused Service	N/A	n/a	*
Corporate Risk Management	ST	ST	=	Information Technology Management	ST	ST	=
Corporate Management Structure	ST	n/a	*				

N/A Not applicable	ST Strong	AC Acceptable	OI Opportunity for Improvement	AR Attention required
↗ Upward trend	= No change	↘ Downward trend	* Unable to compare	n/a not assessed

CHAPTER 7

AGENCY GOVERNANCE

THE CRA BOARD OF MANAGEMENT

Left to right bottom: Norman Halldorson, Linda Lizotte-MacPherson, Susan J. McArthur, Myles Bourke, Sylvie Tessier
Left to right top: Gerard Fitzpatrick, James Nininger, Gordon Gillis, Fauzia Lalani, James Hewitt, Richard Daw, Camille Belliveau, John Firth, Raymond Desrochers

OVERVIEW

The *Canada Revenue Agency Act* provides for the establishment of a Board of Management (Board) consisting of 15 directors appointed by the Governor in Council. Under the provisions of the Act, the Board oversees the organization and administration of the Canada Revenue Agency (CRA), including overseeing the management of its resources, services, property, personnel, and contracts.

In fulfilling this role, the Board brings a forward-looking strategic perspective to the CRA's operations, fosters sound management practices, and is committed to efficient and effective service delivery.

The Board's goal is to ensure that the CRA has a robust strategic framework to support its ongoing activities and that sound monitoring and reporting practices are in place.

INTRODUCTION

The Board's chapter of the *Annual Report to Parliament 2010-2011* illustrates how the Board fulfilled its statutory responsibilities and realized its priorities as outlined in the *Corporate Business Plan 2010-2011 to 2012-2013*.

The chapter also highlights the Board's strategic and fiduciary contributions to ensure the CRA achieves its goals and objectives and meets the expectations of Canadians.

The Board's collaboration with CRA management in 2010-2011 contributed to enhancing the effectiveness and efficiency of the CRA and the Board, thereby maintaining the CRA's reputation as a leader and innovator in management practices in Canada's public service. It also ensured that the CRA is a responsive, effective and trusted tax and benefits administration.

BOARD'S PRIORITIES AND ACCOMPLISHMENTS FOR 2010-2011

2010-2011 was a very challenging year, with several significant priorities and an environment of economic restraint.

In 2010-2011, several key challenges monitored by the Board and the CRA formed the backdrop against which the Board's most noteworthy achievements, for the year, were realized:

- Ensuring a sustained tax and benefit system, while considering evolving compliance challenges, higher expectations for service delivery options, budgetary constraints, and an increasing number of government-wide initiatives;
- Addressing the sustainability and responsiveness of information technology (IT) systems and infrastructure to support new and on-going business needs; and
- Ensuring human resources (HR) capacity and capability in an environment of challenging and changing demographics.

The Board's most significant accomplishments are described in the following pages. They are aligned to its most important priorities in the five general areas of its oversight responsibilities (Administration of the CRA, Organization of the CRA, Management of Resources, Management of Services, and Management of Personnel) and the Board's governance practices.

Additional information regarding the CRA's accomplishments in many of these priority areas can be found under Chapter 6 – Maintaining business sustainability – management results.

ADMINISTRATION OF THE CRA

The Board will ensure that the CRA follows appropriate processes for a sound overall administration.

ENTERPRISE RISK MANAGEMENT

The Board continued to play a valuable role in enterprise risk governance and management. The Board approved the Enterprise Risk Management (ERM) Policy; which is aligned with the ERM vision for the CRA. The Board contributed to the formalization and clarity of roles and responsibilities, with regard to enterprise risk management, and an effective governance structure for risk direction, oversight, and control. The Board also provided direction in the development of the CRA's Corporate Risk Profile. With a forward view, the Board ensured that risks were considered in the development of the CRA *Corporate Business Plan 2011-2012 to 2013-2014*.

CRA STRATEGY AND STRATEGIC PLANNING

The Board played an important oversight role in the development of major CRA long-term strategies, particularly in the identified areas of challenges of IT and HR.

The Board oversaw the development of the CRA Information and Technology Security Strategy 2010-2013, which maps the collective security needs of the CRA and addresses the ever increasing risks to information and its supporting technology.

The Board approved the CRA's Strategic Direction for Employment Equity 2010-2011 to 2012-2013, a multi-year strategic employment equity plan. The Board also provided direction into the CRA's continued efforts to ensure strategic alignment and integration of HR planning with business planning as part of the CRA's Workforce Renewal efforts.

In addition, the Board provided direction into the development of the CRA Emergency Management (EM) Governance Framework and approved the CRA EM Policy, which reflects an enhanced role for the Board in the event of an emergency.

As part of its annual Strategic Planning meeting, the Board provided direction to the CRA regarding its Service Delivery and Web Presence Strategic Plan.

MANAGEMENT OVERSIGHT

In continuing its efforts to evolve the Board of Management Oversight Framework (BoMOF), the 2010-2011 Framework was revamped. In concert with the maturation of the CRA's management systems and processes, emphasis was placed on ensuring the BoMOF provides more results-based evidence. Expectations were also reviewed and modified to better address the Board's areas of oversight.

The BoMOF complements the Management Accountability Framework (MAF) assessment conducted by the Treasury Board of Canada Secretariat. Both of these tools ensure that the CRA is effectively meeting its responsibilities based on rigorous and evidence-based assessments.

This year, the Board is proud to report that the assessment of the CRA revealed very positive results. Of the 19 expectations assessed, the CRA was rated "Strong" for 15 expectations and "Acceptable" for four. Details regarding both the BoMOF and MAF assessments can be found in Chapter 6 of the Annual Report.

ORGANIZATION OF THE CRA

The Board will ensure that the CRA has an appropriate internal accountability structure.

The Board fulfilled its responsibilities, in this area, by setting performance objectives for the Commissioner-Chief Executive Officer at the beginning of the year, monitoring progress through the year, and assessing performance at the end of the year. This practice complements the federal government's performance assessment process for deputy heads.

In 2010-2011, the Board's key objectives for the Commissioner-Chief Executive Officer included the following: appointment of a Chief Risk Officer; ensuring successful CRA and Board Strategic Planning Meetings; continued enhancements of financial systems and processes; enhancing project management in support of strategic investment priorities; continued progress against the CRA's service strategy; successful transition to the CRA of provincial employees related to the Provincial Sales Tax Administration Reform; and leading knowledge transfer and succession planning exercises at the senior levels of the CRA.

To further ensure that the accountabilities of senior executives are aligned with CRA priorities and Board objectives, the Board continued its practice of providing input into the performance agreements and assessments of members of CRA senior management whose responsibilities relate to the Board's oversight and responsibilities. These executives included the Chief Financial Officer (CFO), Chief Audit Executive, Chief Information Officer, Chief Risk Officer (CRO), Assistant Commissioner, Human Resources Branch, Assistant Commissioner, Strategy and Integration Branch, and the Corporate Secretary.

This past year, by invitation of the Commissioner-Chief Executive Officer, the Board participated in the selection process for the CRO and the CFO, whose responsibilities relate to the Board's oversight responsibilities.

MANAGEMENT OF RESOURCES

The Board will assure itself that the CRA has a rigorous approach to resources management that supports the effective and efficient achievement of priorities and program results.

Each year, the Board fulfills its fiduciary oversight responsibilities by reviewing and monitoring the CRA's planned allocation of resources, performance, and spending, including approving the CRA's financial statements and major investment projects.

The Board oversaw a number of initiatives aimed to strengthen financial accountability at the CRA. These included the approval of the CRA Policy Framework for Financial Management and Corporate Finance. Also, the Board continued to monitor the progress of the Chief Executive Officer/Chief Financial Officer certification process of internal controls over financial reporting: a key management initiative to maintain business sustainability through the enforcement of accountability and oversight. The Board also approved the CRA Internal Fraud Control Policy, as part of a comprehensive Internal Fraud Program, which clearly articulates roles, responsibilities, and accountabilities for the control of fraud.

The Board oversaw the development of the CRA's 2010-2011 to 2014-2015 Strategic Investment Plan, including the IT Infrastructure Investment Plan, thus ensuring that the CRA has a sound information technology strategy and investment plan, and that the existing portfolio of projects continues to align with the CRA's priorities.

The Board was also involved in overseeing and monitoring major projects, such as Provincial Sales Tax Administration Reform for Ontario and British Columbia, which was completed successfully, and on schedule, in June 2010.

One key initiative in support of IT sustainability and IT infrastructure that the Board continued to regularly monitor was the CRA's ongoing efforts to secure data centre co-location services with Public Works and Government Services Canada (PWGSC) and the Bank of Canada. A contract was awarded for the provisioning of data centre services within the National Capital Area, as the outcome of a successful collaborative procurement effort between the CRA, PWGSC and the Bank of Canada.

MANAGEMENT OF SERVICES

The Board will ensure that the CRA has established a sound management framework for the services it delivers, including performance targets and measures.

CRA service delivery remained an important focus for the Board, and in particular, the leveraging of technology for service channels, and the potential use of evolving social media.

The Board closely reviewed and monitored the ongoing implementation of the CRA Service Strategy to ensure self-serve channels are promoted and enhanced, the use of more expensive services is optimized, and technology is leveraged across all channels. A particular focus was placed on the CRA's Internet presence. In addition, the Board monitored the CRA's review of its service standards to ensure optimal and effective service to its clients.

The Board reviewed the second Annual Report from the Office of the Taxpayers' Ombudsman in December 2010 and continued to receive regular updates from the Taxpayers' Ombudsman on service-related concerns.

MANAGEMENT OF PERSONNEL

The Board will ensure that the CRA has the leadership and infrastructure necessary for the effective management of the human resources it needs to continue to meet its business objectives.

The Board monitored and provided direction to the CRA's efforts in talent management, succession planning, and knowledge management across the organization, including the executive cadre. The CRA continued to witness significant movement in its senior executive ranks, including the arrival of a number of Assistant Commissioners and Deputy Assistant Commissioners.

The Board continued to oversee the CRA's integration of human resources (HR) planning and business planning. In this regard, the Board approved the 2011-2012 update to the CRA Strategic Workforce Plan to ensure workforce goals and objectives are in place to support the strategic priorities identified in the Corporate Business Plan.

The Board provided direction into the CRA's approach for the development of an Integrity Framework. The Framework is a comprehensive collection of policy instruments, programs, and processes that support the CRA in balancing two significant responsibilities: fostering the CRA's culture of integrity; and, preventing, monitoring, detecting, and managing breaches of employee integrity.

The Board closely monitored contract negotiations with the Public Service Alliance of Canada, including the review and approval of the CRA's negotiating mandate, pursuant to the *Canada Revenue Agency Act*. The successful outcome of the contract negotiations was achieved in record time, prior to the expiry of the previous collective agreement, and resulted in a new two-year agreement. This contract was the first negotiated within the federal government since the implementation of the federal government's *Expenditure Restraint Act* in 2009.

BOARD GOVERNANCE

The Board will ensure that it further develops and enhances its own governance so that it continues to be recognized for its best practices.

Since its creation, the governance structure of the CRA is increasingly recognized as a model for other organizations with the Board as a cornerstone of this structure.

The Board continued to look at ways to improve its governance practices and enhance the effectiveness and efficiency of its processes. The Board Ad Hoc Committee to Review Board Process and Content put forth proposals to this end, late in 2010. The Board also approved enhancements to the BoMOF.

In keeping with best governance practices, the Board monitored the implementation of the action plan developed as a result of the 2009 full scale Board evaluation. The Board also conducted a self-assessment whose results were positive overall.

The Board also held its annual Strategic Planning Meeting with senior management to reflect upon and engage in in-depth deliberations and generative discussions on key issues facing the CRA.

From an appointment perspective, the Board welcomed a new member from Newfoundland and Labrador.

CONCLUSION

In 2010-2011, the Board continued to provide strong oversight of the organization and administration of the CRA, including the management of its resources, services, property, personnel, and contracts.

Working collaboratively with CRA management, the Board successfully achieved its priorities in a challenging year.

The BoMOF enabled the Board to measure and monitor the CRA's performance in those areas that fall under the Board's purview. The positive results of the assessment provide Canadians with assurance that the CRA is actively engaged in pursuing management excellence.

BOARD MEMBERSHIP

The Board of Management of the CRA is made up of 15 members appointed by the Governor in Council. They include the Chair, the Commissioner and Chief Executive Officer, a director nominated by each province, one director nominated by the territories, and two directors nominated by the federal government. Members of the Board bring an external and diverse business perspective from the private, public, and not-for-profit sectors to the work of the CRA.

The following are the Board members, as of March 31, 2011.[5]

Susan J. McArthur, B.A., ICD.D
Chair, Board of Management
Managing Director
Jacob Securities Inc.
Toronto, Ontario

Camille Belliveau, CFP, FCGA
Executive Director
Groupe EPR Canada Group Inc.
Shediac, New Brunswick

Myles Bourke, B.Comm., FCA
Corporate Director
Chartered Accountant
Lethbridge, Alberta

Richard J. Daw, CFP, CMC, FCA
Executive in Residence
Faculty of Business Administration of
Memorial University
St. John's, Newfoundland and Labrador

Raymond Desrochers, B.Comm., CA, CFE
Partner
BDO Dunwoody LLP Chartered Accountants
Winnipeg, Manitoba

John V. Firth, BFA, EPC
Financial Advisor
Whitehorse, Yukon Territory

Gerard J. Fitzpatrick, FCA, TEP
Partner
Fitzpatrick and Company
Chartered Accountants
Charlottetown, Prince Edward Island

Gordon Gillis, B.A., LL.B.
Corporate Director
Dartmouth, Nova Scotia

Norman G. Halldorson, B.Comm., CA, FCA
Corporate Director
Clavet, Saskatchewan

James J. Hewitt, FCMA
Corporate Director
Penticton, British Columbia

Fauzia Lalani, P.Eng.
Field Logistics
Director – Services
Suncor Energy Services Inc.
Calgary, Alberta

James R. Nininger, B.Comm., M.B.A.,Ph.D
Corporate Director
Ottawa, Ontario

Sylvie Tessier, P.Eng., M.B.A., ICD.D
Director of Professional Services
Hewlett Packard
Toronto, Ontario

Linda Lizotte-MacPherson, B.Comm.
Commissioner and Chief Executive Officer
Canada Revenue Agency
Ottawa, Ontario

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[5] As of March 31, 2011, one position on the Board was vacant.

COMMITTEE MEMBERSHIP AND DIRECTOR PARTICIPATION

The Board of Management is supported by four committees that undertake much of the detailed review of items brought before the Board for the Board's consideration. In December 2008, the Board designated responsibility to review and approve, each year, the Board of Management Oversight Framework (BoMOF) and the BoMOF performance assessment of the CRA, to a new sub-committee.

The following table shows the membership of each committee over the course of the fiscal year, as well as directors' committee attendance. The rates of pay of Governor in Council appointees are also provided.

Board members	Board of Management[1] (10 meetings)	Audit Committee (6 meetings)	Governance Committee (3 meetings)	Human Resources Committee (6 meetings)	Resources Committee (4 meetings)	BoMOF Sub-Committee (4 meetings)
Board members present throughout the fiscal year						
Camille Belliveau	7/10		2/3		3/4	
Myles Bourke	10/10	6/6				4/4
Raymond Desrochers	10/10	6/6				
John Firth	9/10			6/6		
Gerard Fitzpatrick	10/10	6/6				
Gordon Gillis	10/10			6/6		4/4
Norm Halldorson	10/10	6/6				
James Hewitt	9/10		3/3		4/4	
Fauzia Lalani	10/10			6/6	4/4	
Linda Lizotte-MacPherson	10/10	6/6[2]	3/3	6/6	3/4	4/4
Susan McArthur	10/10	6/6	3/3	6/6	4/4	4/4
James Nininger	10/10		3/3	6/6		4/4
Sylvie Tessier	10/10				4/4	4/4
Board member who joined during the fiscal year						
Richard Daw	7/8					
Average attendance per meeting	**96%**	**100%**	**93%**	**100%**	**92%**	**100%**

[1] Includes all regular meetings, teleconferences, and Annual Strategic Planning Meeting.

[2] Commissioner-Chief Executive Officer attends as an observer in regular closed sessions of the Audit Committee.

GOVERNOR IN COUNCIL RATES OF PAY		
	Per annum retainer	**Per diem**
Chair	$14,500-$17,100	$565-$665
Committee chair	$11,100-$13,000	$565-$665
Director	$7,300-$8,600	$475-$550
Source: **www.appointments-nominations.gc.ca**		

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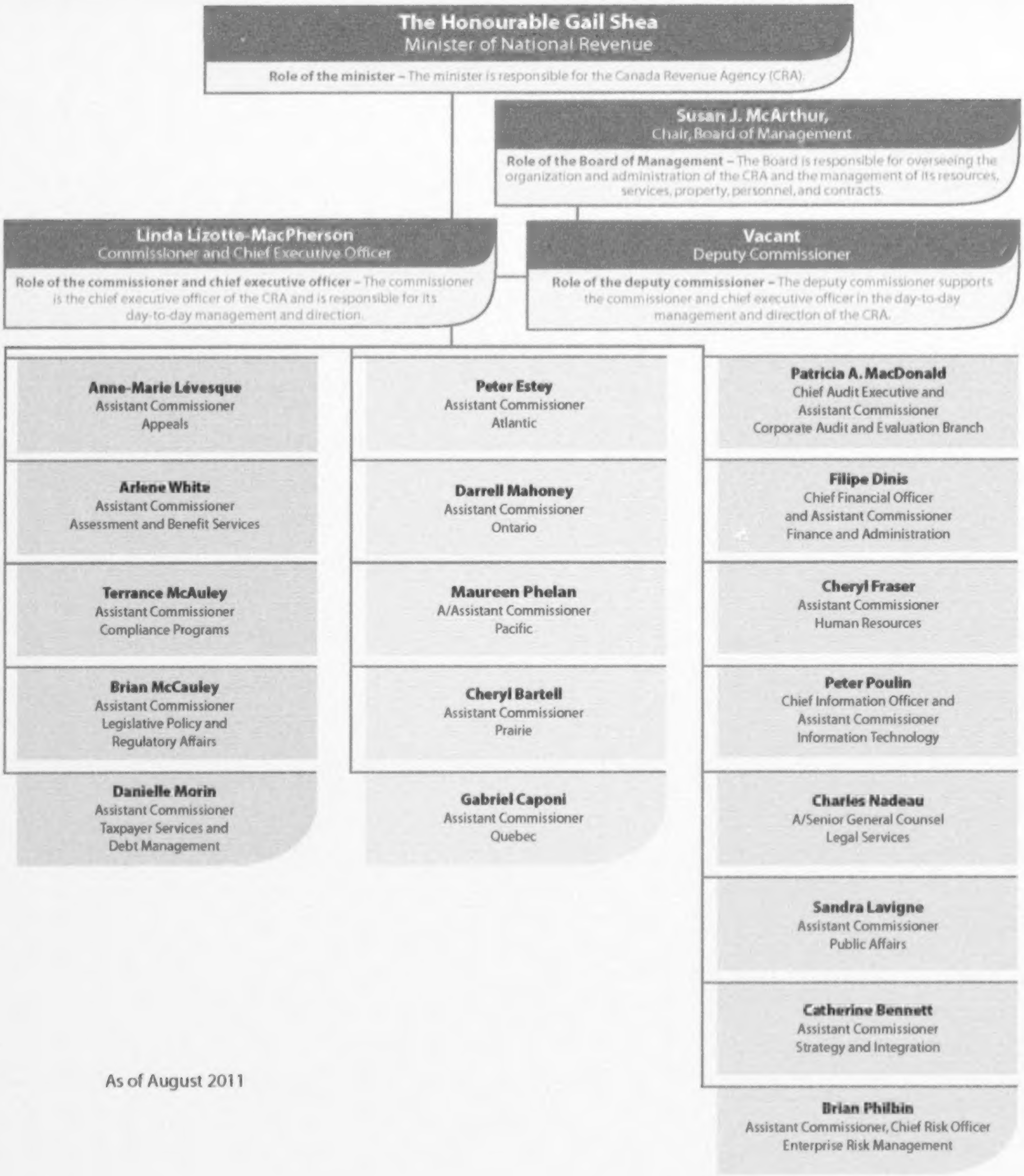
SCHEDULE A – THE CRA GOVERNANCE STRUCTURE

ORGANIZATIONAL STRUCTURE



The Honourable Gail Shea
Minister of National Revenue

Role of the minister – The minister is responsible for the Canada Revenue Agency (CRA).

Susan J. McArthur,
Chair, Board of Management

Role of the Board of Management – The Board is responsible for overseeing the organization and administration of the CRA and the management of its resources, services, property, personnel, and contracts.

Linda Lizotte-MacPherson
Commissioner and Chief Executive Officer

Role of the commissioner and chief executive officer – The commissioner is the chief executive officer of the CRA and is responsible for its day-to-day management and direction.

Vacant
Deputy Commissioner

Role of the deputy commissioner – The deputy commissioner supports the commissioner and chief executive officer in the day-to-day management and direction of the CRA.

Anne-Marie Lévesque
Assistant Commissioner
Appeals

Arlene White
Assistant Commissioner
Assessment and Benefit Services

Terrance McAuley
Assistant Commissioner
Compliance Programs

Brian McCauley
Assistant Commissioner
Legislative Policy and
Regulatory Affairs

Danielle Morin
Assistant Commissioner
Taxpayer Services and
Debt Management

Peter Estey
Assistant Commissioner
Atlantic

Darrell Mahoney
Assistant Commissioner
Ontario

Maureen Phelan
A/Assistant Commissioner
Pacific

Cheryl Bartell
Assistant Commissioner
Prairie

Gabriel Caponi
Assistant Commissioner
Quebec

Patricia A. MacDonald
Chief Audit Executive and
Assistant Commissioner
Corporate Audit and Evaluation Branch

Filipe Dinis
Chief Financial Officer
and Assistant Commissioner
Finance and Administration

Cheryl Fraser
Assistant Commissioner
Human Resources

Peter Poulin
Chief Information Officer and
Assistant Commissioner
Information Technology

Charles Nadeau
A/Senior General Counsel
Legal Services

Sandra Lavigne
Assistant Commissioner
Public Affairs

Catherine Bennett
Assistant Commissioner
Strategy and Integration

Brian Philbin
Assistant Commissioner, Chief Risk Officer
Enterprise Risk Management

As of August 2011

SCHEDULE B – SERVICE STANDARDS AT THE CRA

ABOUT OUR SERVICE STANDARDS

Maintaining the confidence of Canadians in the integrity of the tax system is essential to the success of the CRA. Service standards that are reasonable and consistently met contribute to increasing the level of confidence that Canadians place in government. Our service standards publicly state the level of performance that citizens can reasonably expect to encounter from the CRA under normal circumstances. We set targets that state the percentage of time or level of accuracy that we expect to attain for the established standard. Targets represent the percentage or degree of improvement we expect to attain, based on operational realities such as resource availability, infrastructure, historical performance, the public's expectations, and the complexity of the work. Our standards and targets are reviewed annually and updated, as necessary.

IMPLEMENTATION OF RESULTS OF THE CRA SERVICE STANDARDS REVIEW PROJECT

In 2009-2010, the CRA completed a comprehensive review of its service standards. Its aim was to ensure that our service standards properly reflect the evolution of the CRA and provide taxpayers and benefit recipients with appropriate information on the standard of service the CRA offers. Generally, the results of the review were positive, with the CRA having a good mix of timeliness, accuracy, and accessibility standards for key services. Measurement processes are appropriately focused and targets are sufficiently ambitious and challenging for the program delivery areas. Benchmarking research conducted as part of the review showed the CRA to be at the forefront of the development of service standards within a public sector results-based management context, not only relative to other tax administrations around the world but within the Canadian federal government itself. Even though the results of the review were primarily positive, some service standard processes were identified as needing improvement. As this annual report attests, the CRA has been actively addressing these areas over the last year.

Specifically, the CRA created new service standard Web pages that will help taxpayers to navigate the existing service standards. Release of the Web pages is slated for later this year. We have also taken steps to ensure that we have effective means to incorporate client perspectives in service standard development. A new reporting framework for service standards has been developed to maximize the capture of performance data for corporate reporting purposes and new processes have been implemented to ensure horizontal impacts are considered in the development, modification, or retirement of service standards. Lastly, we have updated our CRA Guide to Service Standards to provide consistent direction to CRA managers and staff at any stage of the life cycle management of their external service standards.

2010 FALL REPORT OF THE AUDITOR GENERAL OF CANADA – CHAPTER 3 – SERVICE DELIVERY

In 2009-2010, the Auditor General of Canada examined the service delivery practices of three federal organizations – Citizenship and Immigration Canada, Human Resources and Skills Development Canada, and the CRA. The review assessed how the organizations set their service standards, monitored and reported on their service performance, and acted on this information to improve service quality. In Chapter 3 – Service Delivery, of her 2010 Fall Report to Parliament, the Auditor General concluded that the CRA has established standards for services it has determined are important to its clients, that it has well-established processes to assess its clients' needs, and that it regularly monitors and reports its performance against these service standards.

This year, we are reporting, both in earlier sections of this report and here, on those standards which have under- and over-achieved against targets.

OUR SERVICE STANDARD RESULTS

PERFORMANCE RATING LEGEND

✓ Met or exceeded target	M Target mostly met (at least 95% of target)	✕ Target not met

n/a Not available	N/A Not applicable

NOTE: Where service standards are expressed in terms of a number of days, they refer to calendar days, unless otherwise specified.

Results for prior years have been revised based on updated information.

BUILDING TRUST TO PROMOTE COMPLIANCE:

Service	Service Standard	Current target	2006-2007	2007-2008	2008-2009	2009-2010	2010-2011	Rating
1. General enquiries – telephone	Our goal is to respond to calls in agent queue within two minutes.	80%	82%	83%	82.4%	80.9%	81.8%	✓
2. Business enquiries – telephone	Our goal is to respond to calls in the agent queue within two minutes.	80%	81%	81.7%	86.8%	86.1%	84.1%	✓
3. Charities – responding to telephone enquiries	Our goal is to respond to calls in agent queue within two minutes.	80%	88%	86%	87%	89.9%	84.4%	✓
4. Charities – responding to applications for charitable registrations[1] a) simple applications b) regular applications	Our goal is to review and respond to applications for charitable registration upon receipt of a complete application within established standards.	80%	N/A	N/A	N/A	N/A	a) 85.9% b) 95.0%	✓
5. Advance income tax rulings to taxpayers	Our goal is to issue advance income tax rulings to taxpayers within an average of 60 calendar days of receipt of all essential information.	100%	94 days	101 days	104 days	98 days	102 days	✕
6. Technical interpretations to taxpayers	Our goal is to issue technical interpretations to taxpayers within an average of 90 calendar days of receipt of a request.	100%	105 days	89 days	91 days	89 days	87 days	✓
7. GST/HST rulings and interpretations – telephone enquiries[2]	Our goal is to respond to calls in the queue within two minutes.	80%	N/A	N/A	N/A	N/A	86%	✓
8. GST/HST rulings and interpretations – written enquiries	Our goal is to respond to written requests for GST/HST rulings and interpretations within 45 working days of receipt in the CRA. This excludes highly technical and precedent and/or policy-setting rulings and interpretations.	80%	87.2%	89.4%	92.8%	94.1%	46.5%[3]	✕

Service	Service Standard	Current target	2006-2007	2007-2008	2008-2009	2009-2010	2010-2011	Rating
9. Applications to register pension plans	Our goal is to complete a full review and provide a response on applications to register pension plans within 180 calendar days.	85%	96.6%	93.9%	92.2%	86.5%	94.4%	✓
10. Amendments to registered pension plans	Our goal is to review pension plan amendments for compliance with the *Income Tax Act* within nine months.	80%	82.1%	76.6%	70.9%	67.2%	77.1%	M
11. Retirement savings plans (applications to register, amend, or terminate)	Our goal is to respond to applications to register, amend, or terminate Retirement Savings Plans (RSPs) within 60 calendar days.	80%	85.3%	84.9%	86.7%	80.1%	86.3%	✓
12. Retirement income funds (applications to register, amend, or terminate)	Our goal is to respond to applications to register, amend, or terminate retirement income funds within 60 calendar days.	80%	91.2%	90.5%	94.4%	92.6%	94%	✓
13. Education savings plans (applications to register, amend, or terminate)	Our goal is to respond to applications to approve, amend, or terminate education savings plans specimen plans within 60 calendar days.	85%	85.3%	71.4%	93.1%	95%	92.1%	✓
14. Actuarial valuation reports	Our goal is to review actuarial valuation reports within nine months and provide written approval of the recommended employer contributions.	80%	35.5%	55.9%	63%	58.9%	63.4%	✗
15. Deferred income plans – response to written enquiries	Our goal is to respond to written enquiries within 60 calendar days.	80%	60.2%	37.6%	64.8%	71.4%	85.9%	✓
16. Deferred profit-sharing plans – registrations	Our goal is to review applications to register new deferred profit sharing plans within 180 days.	80%	98.9%	96.8%	99.8%	99.4%	100%	✓
17. Deferred profit-sharing plans – amendments and terminations	Our goal is to review requests to amend and to terminate plans within 270 days.	80%	89%	86.5%	88.4%	52.1%	81.4%	✓
18. Processing fairness requests related to accounts receivable and trust accounts programs	Our goal is to process taxpayer relief requests within four to six weeks provided all requisite information has been received.	90%	n/a[4]	n/a[4]	n/a[4]	n/a[4]	n/a[4]	
19. Initial contact letter for disputes	Our goal is to acknowledge taxpayer disputes within 30 calendar days after we receive them.	85%	89%	84%	68%	50%	51%	✗
20. Problem Resolution Program	Our goal is to acknowledge receipt of a problem within two working days.	95%	96.7%	95.1%	95.5%	97.1%	95.3%	✓

Service	Service Standard	Current target	2006-2007	2007-2008	2008-2009	2009-2010	2010-2011	Rating
21. Problem Resolution Program	Our goal is to resolve the problem within 15 working days. If we cannot (for example, if a case is complex), we will make contact within that time to indicate an anticipated date of resolution.	95%	96.7%	95.4%	95.9%	96.6%	95.3%	✓

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[1] New standard and target for 2010-2011.

[2] New standard and target for 2010-2011.

[3] The implementation of the HST in Ontario and British Columbia resulted in a significant increase in the number of enquiries. Although additional staff were hired and inventory management strategies were used, intake exceeded our ability to meet the standard.

[4] Reliable data not available

STRENGTHENING SERVICE TO MAKE COMPLIANCE EASIER:

Service	Service Standard	Current target	2006-2007	2007-2008	2008-2009	2009-2010	2010-2011	Rating
22. Responding to taxpayer-requested adjustments (T1)	Our goal is to complete the adjustment and mail a Notice of Reassessment within an average of eight weeks provided all requisite information has been received from the taxpayer.	100%	7 weeks	7 weeks	7 weeks	7 weeks	7.2 weeks	✓
23. Responding to taxpayer-requested adjustments (T1) received via the Internet[1]	Our goal is to complete the adjustment and mail a Notice of Reassessment within an average of two weeks provided all requisite information has been received from the taxpayer.	100%	N/A	2 weeks	2 weeks	2 weeks	1.8 weeks	✓
24. Processing T1 individual income tax returns (paper)	Our goal is to process a paper T1 return and mail a Notice of Assessment and refund, if applicable, in an average of four to six weeks.	100%	3.9 weeks	4.1 weeks	4.0 weeks	4.3 weeks	3.9 weeks	✓
25. Processing T1 individual income tax returns (electronic)	Our goal is to process electronic T1 returns (EFILE, TELEFILE, and NETFILE) within an average of two weeks of receipt.	100%	1.6 weeks	1.7 weeks	1.6 weeks	1.6 weeks	1.7 weeks	✓
26. Processing T3 trust returns	Our goal is to process T3 trust returns within four months.	95%	95.7%	98%	97.2%	97.6%	98.5%	✓
27. Processing excise tax, excise duty, softwood lumber returns and air travellers security charge returns	Our goal is to assess excise tax, excise duty, softwood lumber returns, and air travellers security charge returns within 90 days of receipt.	95%	98.1%	98.2%	99%	97%	97.6%	✓
28. Processing GST/HST returns	Our goal is to process GST/HST returns within 30 calendar days of receipt.	95%	98.5%	91.9%	97.3%[2]	n/a[3]	90.3%[4]	M
29. Processing T2 corporation income tax returns	Our goal is to assess T2 returns (corporation income tax) within 60 days.	90%	N/A	92%	90.8%	92.8%	94.5%	✓

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[1] New standard and target for 2007-2008.

[2] The standard was changed from 21 days to 30 days to align with legislative changes.

[3] Substantiated results not available for 2009-2010.

[4] Revised data capture method began June 2010.

MAKING NON-COMPLIANCE MORE DIFFICULT

Service	Service Standard	Current target	2006-2007	2007-2008	2008-2009	2009-2010	2010-2011	Rating
30. SR&ED refundable claims	Our goal is to process claims for tax incentives from businesses that conduct scientific research and experimental development (SR&ED) in Canada within 120 calendar days from receipt of a complete claim for refundable claims.	90%	96.1%	96.3%	96.3%	96.3%	96.5%	✓
31. SR&ED non-refundable claims	Our goal is to process claims for tax incentives from businesses that conduct scientific research and experimental development (SR&ED) in Canada within 365 calendar days from receipt of a complete claim for non-refundable claims.	90%	96.1%	96.8%	97.3%	96%	96.7%	✓
32. SR&ED claimant-requested adjustments to refundable claims	Our goal is to process claims for tax incentives from businesses that conduct scientific research and experimental development (SR&ED) in Canada within 240 calendar days from receipt of a complete claim, for refundable claims related to adjustments requested to previously filed income tax returns.	90%	96.8%	97.1%	96.9%	97.3%	96.8%	✓
33. SR&ED claimant-requested adjustments to non-refundable claims	Our goal is to process claims for tax incentives from businesses that conduct scientific research and experimental development (SR&ED) in Canada within 365 calendar days from receipt of a complete claim, for non-refundable claims related to adjustments requested to previously filed income tax returns.	90%	92.9%	95.1%	96.4%	95.4%	94.9%	✓
34. Video and film tax credits – refundable claims (unaudited)	Our goal is to review T2 corporation income tax returns that include claims for the Canadian Film or Video Production Tax Credit, the Film or Video Production Services Tax Credit, the BC Film and Television Tax Credit, the BC Production Services Tax Credit, the Manitoba Film and Video Production Tax Credit, and the Ontario Film and Television Tax Credit within 60 calendar days from the date of receipt where no audit action is undertaken.	90%	96.6%	96.6%	96.4%	92.9%	94.8%	✓

Service	Service Standard	Current target	2006-2007	2007-2008	2008-2009	2009-2010	2010-2011	Rating
35. Video and film tax credits – refundable claims (audited)	Our goal is to review T2 corporation income tax returns that include claims for the Canadian Film or Video Production Tax Credit, the Film or Video Production Services Tax Credit, the BC Film and Television Tax Credit, the BC Production Services Tax Credit, the Manitoba Film and Video Production Tax Credit, and the Ontario Film and Television Tax Credit within 120 calendar days from the date of receipt where audit action is undertaken.	90%	96%	95.9%	96.3%	91.9%	91.2%	✓

MAKING IT EASIER TO RECEIVE THE RIGHT SOCIAL BENEFITS:

Service	Service Standard	Current target	2006-2007	2007-2008	2008-2009	2009-2010	2010-2011	Rating
36. Canada Child Tax Benefit – telephone enquiries	Our goal is to respond to calls in the agent queue within two minutes.	75%	75%	78.3%	78%	74.9%	76.4%	✓
37. Processing benefit applications and marital status change forms – timeliness	Our goal is to issue a payment, notice, or explanation within 80 calendar days.	98%	99%	99.1%	97.4%	98.8%	98.7%	✓
38. Processing benefit applications and marital status change forms – accuracy	Our goal is to accurately process the appropriate payment and notice and, if necessary, issue a letter requesting additional information.	98%	N/A	98%	97.7%	97.4%	99.1%	✓
39. Responding to benefit and credit enquiries – timeliness	Our goal is to respond to written enquiries and telephone referrals from call centres within 80 calendar days	98%	97.8%	99%	98%	93%	94.9%	M
40. Responding to benefit and credit enquiries – accuracy	Our goal is to respond to written enquiries and telephone referrals from call centres, with correct information, and accurately process new recipient information, including issuing a payment, notice, or letter.	98%	N/A	97.3%	97.1%	99.3%	98.6%	✓
41. Validation and control – results of review	Our goal is to inform you of the result of our review within 45 days after we receive the information requested.	90%	n/a	98.7%	97%	94.2%	96.4%	✓

Service	Service Standard	Current target	2006-2007	2007-2008	2008-2009	2009-2010	2010-2011	Rating
42. Processing a request to authorize or cancel a representative – timeliness (peak)	Our goal is to process your request to authorize or cancel a representative received during peak tax time (mid-March to mid-July) within 20 business days of receipt by the CRA.	90%	76.8%	91%	75.8%	93.8%	87.1%	M
43. Processing a request to authorize or cancel a representative – accuracy (peak)[1]	Our goal is to accurately process your request to authorize or cancel a representative; if necessary, we will send you a letter requesting additional information.	98%	N/A	N/A	99%	99%	99.4%	✓
44. Processing a request to authorize or cancel a representative – timeliness (non-peak)	Our goal is to process your request to authorize or cancel a representative received during non-peak tax time (mid-July to mid-March) within five business days of receipt by the CRA.	90%	32.8%	75.3%	72.1%	63%	78.2%	✗
45. Processing a request to authorize or cancel a representative – accuracy (non-peak)[1]	Our goal is to accurately process your request to authorize or cancel a representative; if necessary, we will send you a letter requesting additional information.	98%	N/A	N/A	97.9%	99%	99%	✓

[1] Standard introduced in 2008-2009.

INTERNAL SERVICES

Service	Service Standard	Current target	2006-2007	2007-2008	2008-2009	2009-2010	2010-2011	Rating
46. External requests for statistical tax data	Our goal is to respond to taxpayer requests for statistical data within an average of 30 calendar days.	100%	28 days	29 days	28 days	22 days	14 days	✓

SERVICE STANDARDS UNDER DEVELOPMENT IN 2011-2012

These proposed service standards may change as a result of resource constraints.

Strategic Theme	Service Standard	Proposed Target
Building Trust to Promote Compliance	Deferred profit sharing plans – registrations, amendments, and terminations – this standard would combine registration in 180 days with amendments and terminations in 270 days. Further study is required before implementing this service standard.	80%
	Respond to applications to register, amend, or terminate specialty products within 60 calendar days. This standard would combine retirement savings plans and retirement income funds.	tbd
	Charities – The goal is to respond to written enquiries within established[1] standards.	80%
	E-Services Helpdesk telephone enquiries.	tbd
	Enquiries, CRA Service complaints – Our goal is to acknowledge receipt of the complaint within two days.	90%
	Enquiries, CRA Service complaints – Our goal is to provide contact every 15 business days until the complaint is resolved.	90%
	Enquiries, CRA Service complaints – Our goal is to communicate the resolution of the complaint within 30 business days of its receipt.	90%
	Processing income tax, commodity tax, and CPP/EI disputes – Single issue disputes. Our goal is to inform taxpayers of our decision within XX[2] days.	tbd
	Taxpayer Relief Program – Our goal is to acknowledge receipt of relief requests within XX[2] days.	tbd
	Taxpayer Relief Program – Our goal is to communicate the decision on the relief request within XX[2] days.	tbd
	First contact letter for disputes involving single issues. Our goal is to acknowledge receipt of requests for redress within XX[2] days.	tbd
Making it Easier to Receive the Right Social Benefits	The Goods and Services Tax/Harmonized Sales tax (GST/HST) Credit – Telephone – Respond to calls in the agent queue within two minutes	75%

[1] Routine enquiries – within 45 days of receipt; complex enquiries – within 75 days of receipt

[2] The timeframe is under development

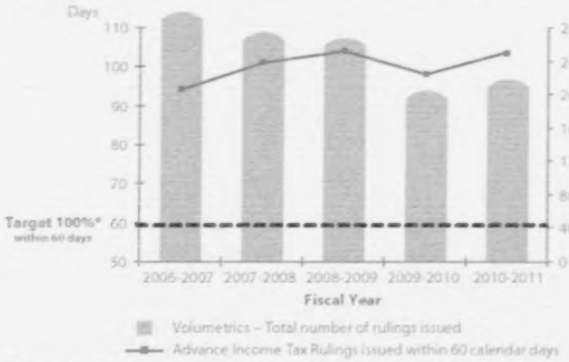
CHALLENGES/EXCEPTIONS

BUILDING TRUST TO PROMOTE COMPLIANCE

Advance income tax rulings to taxpayers

The turnaround time for advance income tax rulings during the 2010-2011 fiscal year followed the same pattern of recent years, of being in excess of our published service standard. With the ever-increasing complexity of the advance income tax rulings files, we will be re-examining the service standard in 2011-2012, as well as the technical interpretations service standard.

Figure 11 Advance income tax rulings to taxpayers



*A number at or below the line indicates that performance has met or exceeded target

Data quality: Good

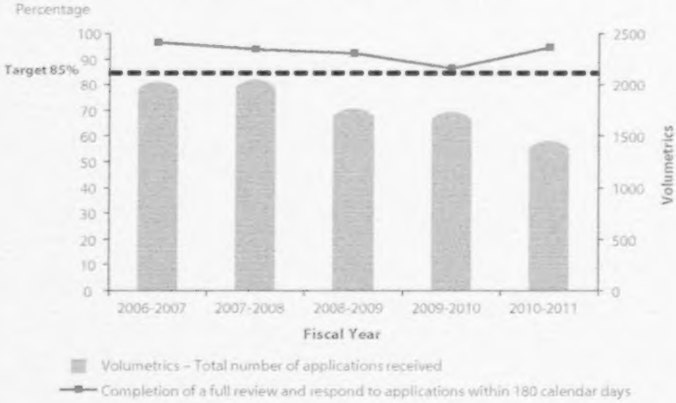
Applications to register pension plans

We exceeded this service standard by 9% and increased our results compared to last year by almost 8%.

This workload is treated as a high priority. Registered pension plan administrators and employers need the pension plan's registration number in order to complete other filings, including T4s. In addition, the early identification of non-compliance mitigates the potential adverse tax liabilities to employers and plan members.

To streamline the plan registration process, we assess the potential risk of each application based on the information provided by the plan administrator on Form T510, *Application to Register a Pension Plan*. Approximately 22% of these applications were identified as being at low risk for non-compliance and were accepted without further review.

Figure 12 Applications to register pension plans



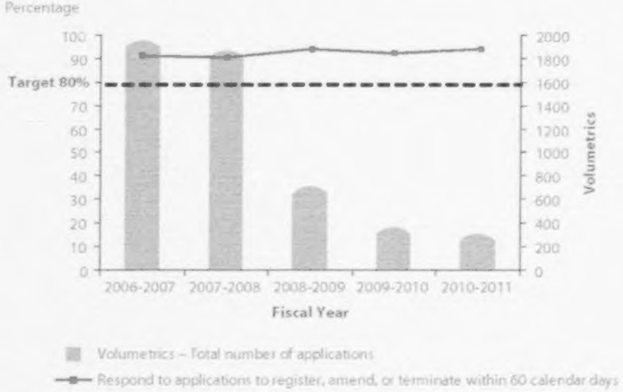
Data quality: Good

Retirement income funds (applications to register, amend, or terminate)

We exceeded our service standard by 14% and increased our results compared to last year by 1%. This workload is treated as a high priority. New and amended specimen plans affect many contracts with individuals.

In 2009, we adopted a new tracking system called Registered Plans Application Suite (RPAS). This new system keeps track of cases instead of submissions. As a result, although workload remained fairly stable, RPAS reporting caused a decrease in the number of submissions being input and reported. We also changed the way we processed Provincial and Federal Retirement Savings Plan and Retirement Income Fund Addendums. This also contributed to the decrease in submissions being input and reported.

Figure 13 Retirement income funds (applications to register, amend, or terminate)



Data quality: Good

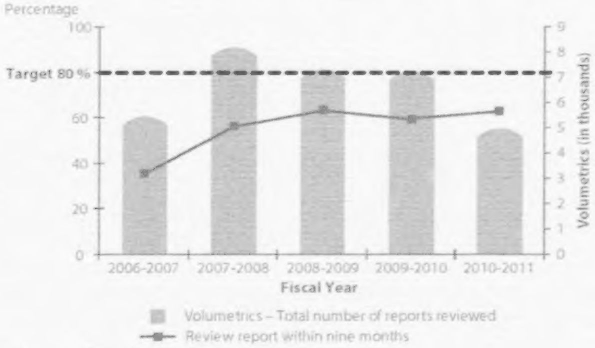
Actuarial valuation reports

Although we did not meet our target, we increased our results by 4% compared to the same period last year.

There is a large backlog of older actuarial valuation reports. As we focus on reviewing older actuarial valuation reports first, a greater percentage of completed submissions exceed the 270 day standard.

We have found significant non-compliance in the actuarial valuation reports with respect to certain categories of registered pension plans. These plans represent a large percentage of plans currently registered. As a result, identifying and dealing with this non-compliance has increased the average time to complete a submission. This, in conjunction with dedicating resources to ensure that other standards have been met caused a reduction in the number of actuarial valuation reports reviewed this year. Steps will be taken next year to improve upon this result.

Figure 14 Actuarial valuation reports (AVR)



Data quality: Good

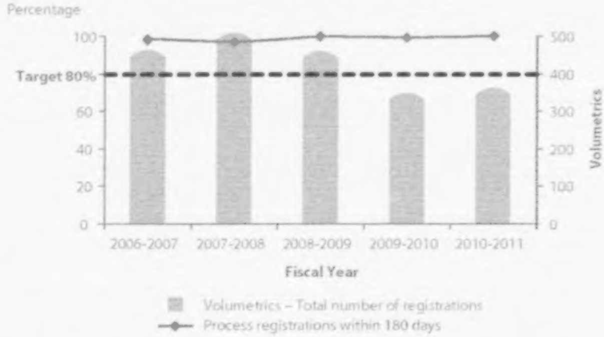
Deferred profit-sharing plans – registrations

We continued to exceed this service standard, which is a similar result compared to last year (-1% difference).

This workload is treated as a high priority. Plan sponsors and employers need the plan's registration number in order to complete other filings, including T4s.

In addition, the early identification of non-compliance mitigates the potential adverse tax liabilities to employers and plan members.

Figure 15 Deferred profit-sharing plans – registrations

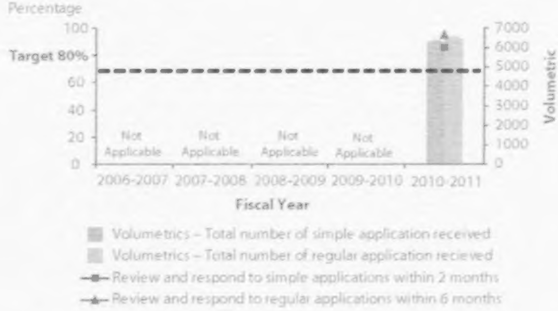


Data quality: Good

Charities – Responding to applications for charitable registrations

In addition to assigning additional staff to this program, various process improvements were implemented such as streamlining work, standardizing file approach, and utilizing the workflow tracking system to its fullest capacity. These process improvements enabled the program to meet and surpass the new service targets. We expect performance levels to be closer to the targets in 2011-2012.

Figure 16 Charities – Responding to applications for charitable registrations



*New standard and target for 2010-2011

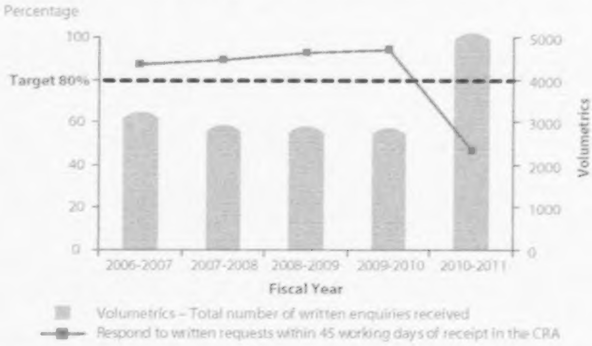
Data quality: Good

GST/HST rulings and interpretations – Written enquiries

The implementation of the HST in Ontario and British Columbia resulted in a significant increase in the number of requests for rulings and interpretations received during this fiscal year. The program experienced a 46% increase in the number of written requests compared to 2009-2010.

Although additional staff were hired and inventory management strategies were used to address increased volumes, intake still exceeded our ability to manage incoming requests in a timely manner. As a result, we were unable to meet our published service standard for written requests.

Figure 17 GST/HST rulings and interpretations – Written enquiries



Data quality: Good

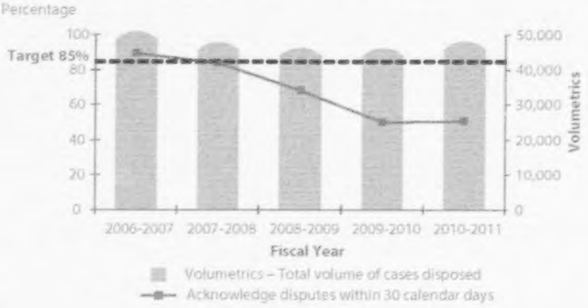
The introduction of provincial flexibilities and new legislation (e.g., place of supply, point of sale and recaptured input tax credits) also increased average case completion times, resulting in higher inventories.

Initial contact letter for disputes

In the immediately preceding reporting periods, the CRA had a significant increase in disputes from taxpayers impacted by the CRA approach to aggressive tax plans. We continue to preserve our high standards for quality and accuracy of reviews in the processing of disputes; however, this has been at the expense of overall timeliness.

This year, we continued the administrative workload strategies launched late last year and made an internal reallocation of resources to stabilize the front-end management activities of our redress process. We anticipate improvement in timeliness in the 2011-2012 fiscal year.

Figure 18 Initial contact letter for disputes



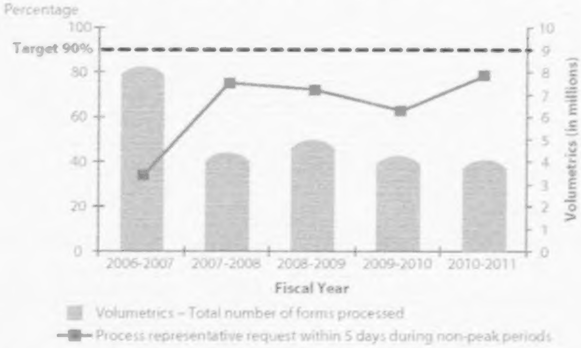
Data quality: Good

MAKING IT EASIER TO RECEIVE THE RIGHT SOCIAL BENEFITS

Processing a request to authorize or cancel a representative – Timeliness (non-peak)

We strive to process a request that is received during non-peak tax time (mid-July to mid-March) within five business days. We aim to meet this standard 90% of the time. Our performance has improved since last year due to system enhancements. However, we are still experiencing challenges associated with the timely routing of request forms. Steps are being taken to address these delays in affected regions. These involve process improvements, and ensuring that the requests are given the appropriate priority. These steps should allow us to improve our timeliness performance by 2012-2013.

Figure 19 Processing a request to authorize or cancel a representative – Timeliness (non-peak)

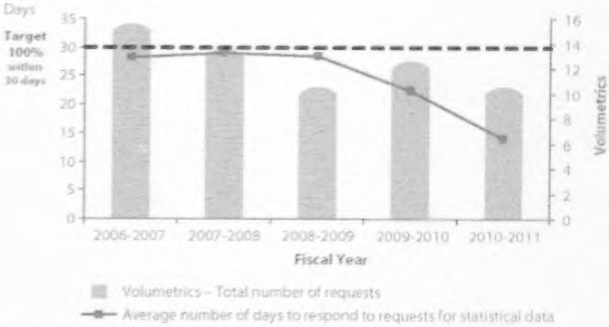


Data quality: Good

External requests for statistical tax data

Our goal is to respond to taxpayer requests for statistical data within an average of 30 calendar days. Our target is to meet this standard 100% of the time. This standard was met this year and the number of days to respond to a request continued to decline from past years. Requests were responded to more quickly this year due to several factors: a strong and stable workforce; several requests were similar to those in previous years; and several of the requests were not complex in nature.

Figure 20 External requests for statistical tax data



Data quality: Good

SCHEDULE C – OTHER ITEMS OF INTEREST

LINKING THE 2009-2010 TO 2010-2011 ANNUAL REPORT STRUCTURES

This annual report has been structured in a horizontal manner based on the priorities that the CRA has established for this planning period. The responsibility for activities within each initiative falls within specific CRA Program Activities. The table below provides the links between the CRA's overarching priorities and initiatives and the program activity responsible for each initiative.

The CRA has six distinct program activities plus one for corporate services. Program activities are groups of related activities that are designed and managed to meet a specific public need. They are often treated as a budgetary unit. Each program activity is articulated at a sufficient level of detail to reflect how we allocate and manage our resources to achieve the intended results. The CRA program activity architecture is based on the Management, Resources, and Results Structure established by the Treasury Board of Canada Secretariat.

OVERARCHING PRIORITIES	INITIATIVES	PROGRAM ACTIVITY
Building trust to promote compliance	Strengthen outreach	Program Activity 1: Taxpayer and Business Assistance
	Optimize service delivery channels	Program Activity 1: Taxpayer and Business Assistance
	Resolve taxpayer disputes and service complaints	Program Activity 5: Appeals
	Enhance the administration of our Voluntary Disclosures Program	Program Activity 4: Reporting Compliance
	Enhance our charities program	Program Activity 1: Taxpayer and Business Assistance
Strengthening service to make compliance easier	Enhance our electronic services	Program Activity 2: Assessment of Returns and Payment Processing
	Promote the take-up of electronic filing and electronic payments	Program Activity 2: Assessment of Returns and Payment Processing
	Further tax harmonization	Program Activity 1: Taxpayer and Business Assistance Program Activity 2: Assessment of Returns and Payment Processing Program Activity 4: Reporting Compliance Program Activity 7: Internal Services
Making non-compliance more difficult	Enhance strategies to manage payment non-compliance	Program Activity 3: Accounts Receivable and Returns Compliance
	Identify aggressive tax planning schemes more effectively	Program Activity 4: Reporting Compliance
	Identify non-compliance in the underground economy more effectively	Program Activity 3: Accounts Receivable and Returns Compliance Program Activity 4: Reporting Compliance

OVERARCHING PRIORITIES	INITIATIVES	PROGRAM ACTIVITY
Addressing non-compliance (continued)	Use enhanced risk assessment to identify non-compliance by employers and GST/HST registrants	Program Activity 2: Assessment of Returns and Payment Processing Program Activity 3: Accounts Receivable and Returns Compliance Program Activity 4: Reporting Compliance
	Implement an enhanced tobacco stamping regime	Program Activity 1: Taxpayer and Business Assistance
	Enhance the administration of the SR&ED Program	Program Activity 4: Reporting Compliance
	Use better risk assessment to detect and correct reporting non-compliance	Program Activity 3: Accounts Receivable and Returns Compliance Program Activity 4: Reporting Compliance
	Improve the detection and deterrence of non-compliance in our Charities Program	Program Activity 1: Taxpayer and Business Assistance
Making it easier to receive the right social benefits	Strengthen service to benefit recipients Support business growth and partnerships Strengthen benefits delivery infrastructure Ensure accurate payments	Program Activity 6: Benefit Programs
Maintaining business sustainability	Plan for and acquire talent Retain and mobilize talent Develop talent Bolster our IT infrastructure and solutions Ensure secure management of protected taxpayer information Manage business information Reinforce accountability and oversight Refine our strategic investment plan Employ risk management consistently and systematically	Program Activity 7: Internal Services

DETAILED TAX DEBT MANAGEMENT ACTION PLANS

These plans track actions to address the recommendations of the Standing Committee on Public Accounts (PACP) and the Office of the Auditor General of Canada (OAG) regarding how the CRA collects tax debt.

RISK MANAGEMENT

The CRA's strategy to improve the risk management of its collections program will address the **OAG's recommendation (8.52)** that:

"The Canada Revenue Agency should establish a more comprehensive automated risk-scoring system for tax debts, update the risk scores on an ongoing basis, and use the risk scores to prioritize workload throughout the collections process."

-PACP Reference #2

SPECIFIC COMMITMENT (S) AND DELIVERABLES	TARGET DATE	PROGRESS
Fully operational risk scores are scheduled for business programs by 2011.	2011	The automation of enhanced risk scoring for other revenue lines is subject to the availability of CRA funding. In 2009-2010, progress consisted of planning and preliminary feasibility proposals for business models. Building on Phase 1 of the project, TSDMB completed a business case for Phase 2 of the IRC initiative that will deliver risk components (i.e. data mining) to other revenue lines.

FILE MANAGEMENT

The CRA's strategy to improve how it manages its collections program files will address the **OAG's recommendation (8.65)** that:

"The Canada Revenue Agency should minimize the number of collectors who work on each account, record their actions in a more systematic way, and improve the case management tools they have at their disposal."

SPECIFIC COMMITMENT (S) AND DELIVERABLES	TARGET DATE	PROGRESS
Business programs are scheduled to use the same components for improvements to file and workload management in 2011.	Completed	The CRA has implemented the Accounts Receivable Platform nationally. The Accounts Receivable Platform provides field collectors with a graphical user interface to meet our current needs for account analysis by facilitating the gathering of information from specified source systems in support of collections across the individual, corporate, GST/HST, and payroll revenue lines.

PERFORMANCE REPORTING

The CRA's strategy to improve how it reports on the performance of its collections program will address the **OAG's recommendation (8.41)** that:

"The Canada Revenue Agency should significantly improve its management information to make it complete and comprehensive. It should develop reliable techniques and information sources to determine on a regular basis the results of its collection efforts and use that information to guide its decision-making for each of its major collection modes and actions."

SPECIFIC COMMITMENT (S) AND DELIVERABLES	TARGET DATE	PROGRESS
Performance reporting tools are scheduled to be progressively implemented throughout all major business revenue lines by 2011.	2011	Steps were also taken to develop a T1 performance reporting system. Work is underway to evaluate alternatives to accessing the performance reporting data that has been delivered. Enhancements are being made to the all Revenue Tables and work is underway to complete the final component of the Performance Reporting solution.

DEBT MANAGEMENT RESEARCH

The CRA's strategy to improve its debt management research will address the **OAG's recommendation (8.28)** that:

"The Canada Revenue Agency should identify and collect the data it needs to analyze the makeup of its tax debt and to develop better collection strategies." (considering a variety of factors including fluctuations in the economic cycle)

-PACP Reference #4

SPECIFIC COMMITMENT (S) AND DELIVERABLES	TARGET DATE	PROGRESS
Business-enhanced		
Build enhanced analytical capacity using Integrated Revenue Collections data-analysis enhancements by 2011 for business programs.	2011	In 2009-2010, progress consisted of planning and preliminary feasibility proposals with respect to business programs. We completed a business case for Phase 2 of the Integrated Revenue Collections initiative.
Research into economic indicators		
Develop research approach and conduct study.	Ongoing	In 2009-2010, progress consisted of preliminary discussion and early scoping. In 2010-2011, we completed the identification of economic indicators and, in the process, collected information on Government fiscal and monetary policies that have an impact on Debt Management issues

SCHEDULE D – WEB LINKS FOR ADDITIONAL INFORMATION

CANADA REVENUE AGENCY WEB SITES

Annual Reports to Parliament
Board of Management
Community Volunteer Income Tax Program
CRA E-services
Information for Newcomers to Canada
Making a Difference for Canadians
Measuring the Small Business Compliance Burden
Minister of National Revenue
My Account
My Business Account
Summary of the Corporate Business Plan
Our Service Standards
Project Trident
Quick Access
Represent a Client
Scientific Research and Experimental Development (SR&ED) Program
Service Complaints
Sustainable Development
Taxpayer Bill of Rights
Underground Economy
Voluntary Disclosures Program

ADDITIONAL WEB SITES

Accenture Report, Leadership in Customer Service
Access to Information Act
Canada Border Services Agency
Citizenship and Immigration Canada
Department of Finance Canada
Department of Justice Canada
Excise Tax Act
Family Orders and Agreement Enforcement Act
Government of Canada
House of Commons
Human Resources and Skills Development Canada
Income Tax Act
Organisation for Economic Co-operation and Development (OECD)
Privacy Act
Softwood Lumber Products Export Charge Act, 2006
Taxpayers' Ombudsman
Tax-Free Savings Account
The Senate of Canada
Treasury Board of Canada Secretariat

SCHEDULE E – GLOSSARY

Caller accessibility – A measure of the percentage of callers who succeed in accessing our telephone service.

Cancellation – The reversal of a penalty or interest that has already been assessed.

Cash receipts – Money received by the CRA or its agents during the fiscal year ended March 31, the majority of which is deposited to the federal government's Consolidated Revenue Fund. Any money not yet deposited is referred to as 'cash on hand'.

Change rate – The Change Rate is a ratio of the number of audits which result in changes in taxes payable to the total audits, expressed as a percentage. A change means that current or future taxes are or will be reassessed or denied.

Commodity taxes – Federal tax collected on the purchase of goods or services made by the final consumer.

Compliance – Adherence to the law. Total compliance with tax laws includes filing, registration, remittance, and reporting for taxes and benefits in a voluntary, accurate, and timely manner.

Contract payment reporting – An initiative that is aimed at deterring underground economic activity by requiring all construction businesses to record payments that are made to subcontractors who provide construction services.

Corporate business plan – Outlines the CRA's major challenges, directions, and objectives for a three-year period; the strategies to achieve those objectives; and the performance measures to be used to measure progress.

Dispute – General term to designate a disagreement, objection, or appeal to the Minister of National Revenue (for Canada Pension Plan or Employment Insurance rulings or (re)assessments) made by or on behalf of a taxpayer or benefit recipient, related to a CRA decision.

Disputes resolved – Refers to Appeals disputes for which an impartial administrative review has been completed.

Eligible taxpayer/benefit recipient – One who meets the requirements to qualify to receive a specific service or payment/credit.

Enforcement – Actions taken by the CRA to identify and address cases of non-compliance.

Entitlement – The amount due an eligible person for a specific period.

Expected results – Clear and measurable statements of what the CRA expects to achieve over the planning period, against which our performance will be assessed and reported.

Fiscal impact – Additional tax identified through our compliance activities. This includes federal and provincial tax (excluding Quebec), federal tax refund offset or reduced, interest and penalties; and present value of future tax assessable.

Full-time equivalent – A unit measuring a length of time for employment cost purposes in an operating budget. It includes incidental time necessarily used for annual leave, training, etc.

Government programs debt (non-tax debt) – Debt arising from programs administered by Human Resources and Skills Development Canada, such as defaulted Canada Student Loans, Canada Pension Plan overpayments, and Employment Insurance overpayments that the CRA is responsible for collecting on behalf of Human Resources and Skills Development Canada.

Governance – A comprehensive term that denotes the institutions and processes by which an organization is directed or controlled.

Indicator – The qualification or quantification of a characteristic that is measured to assess the extent to which an expected result is achieved. It is a means of knowing whether or not we have achieved a desired result.

Non-workable file – A file that is awaiting a court decision, a related file that is pending, a file that is awaiting an opinion from a Headquarters appeals office, or (with respect to CPP/EI and tax issues) a file that has been referred to a specialized CPP/EI group for an opinion.

Performance – A term used to define what the CRA did with its resources to achieve its results compared to what the CRA intended to achieve.

Resolved – The Canada Revenue Agency considers tax and non-tax debt to be resolved once payment has been received or if the CRA writes-off the debt.

Risk – The expression of the likelihood of an event to occur that has the potential to impact the achievement of an organization's objectives. Risk is managed by using a systematic approach to setting the best course of action under uncertainty by identifying, assessing, understanding, acting on, and communicating risk issues.

Service standard – A public statement of the level of performance that citizens can expect to encounter from the CRA under normal circumstances.

Set-off – A service provided by the CRA that allows tax refunds and GST/HST credits for individuals to be transferred (set off) to pay debts owed to other federal, provincial, or territorial government programs.

Small and medium-sized enterprises – Small Enterprises: Individuals who are in business, trusts, and private corporations with less than $1 million in annual revenues.

Medium Enterprises – corporations with annual revenues between $1 million and $250 million and often involve subsidiary corporations and branch operations.

Strategic outcome – A description of the difference an organization is mandated to make that provides long-term benefits to Canadians.

T1 – Income Tax and Benefit Return for Individual

T2 – Corporation Income Tax Return

T3 – Trust Return

T4 – Statement of Remuneration Paid

T5 – Return of Investment Income

Tax alert – A tax alert is a media product used by the CRA when it wishes to communicate matters of particular importance to Canadians that are normally time-sensitive and aimed at protecting their interest and providing important information that could directly affect them. This may include information on tax shelters, investments, tax strategies, and fraud that targets taxpayers.

Tax debt – Taxes and other revenues assessed or estimated by the CRA but not yet collected.

Tax-free savings account for individuals – Since January 1, 2009, Canadian residents who are 18 years of age or older with a valid Social insurance number are eligible to contribute up to $5,000 annually to a Tax-Free Savings Account.

Taxpayer relief provisions – Legislation introduced in the early 1990s that provides relief (e.g., forgiveness of interest and penalties) to taxpayers in specific circumstances beyond their control.

Taxpayer segments – Groups of taxpayers who have common compliance requirements and characteristics, service needs, preferences for accessing information or services, or expectations of the CRA, such as individuals; small, medium, and large businesses, both incorporated and unincorporated; and charities.

Tax shelter – Tax shelters are defined in the *Income Tax Act*. In very general terms, a tax shelter includes either a gifting arrangement or the acquisition of property where it is represented to the purchaser or donor that the tax benefits and deductions arising from the arrangement or acquisition will equal or exceed the net costs of entering into the arrangement or the property. Also, a gifting arrangement where the donor incurs a limited recourse debt related to the gift is considered to be a tax shelter. Generally, a limited recourse debt is one where the borrower is not at risk for the repayment.

Underground economy – Economic activity that is neither reported nor recorded.

Visit – A series of actions that begin when a visitor views their first page and end when they leave the site, or after 30 minutes of inactivity.

Voluntary disclosures program – A program that provides taxpayers with the opportunity to correct past errors or omissions and to report, without penalty or prosecution, their tax obligations to the CRA.

Waiver – When penalties or interest have not yet been charged, the decision not to charge the amount, either at the taxpayer's request or by the CRA's own initiative.

SCHEDULE F – ACRONYMS AND ABBREVIATIONS

Automated Benefits Applications (ABA)
Agency Workforce Plan (AWP)
Business Number (BN)
Board of Management (BoM)
Board of Management Oversight Framework (BoMOF)
Core Audit Program (CAP)
Competency-Based Human Resources Management (CBHRM)
Canada Child Tax Benefit (CCTB)
Canada Pension Plan (CPP)
Canada Revenue Agency (CRA)
Community Volunteer Income Tax Program (CVITP)
Disability Tax Credit (DTC)
Executive Cadre (EC)
Employment Insurance (EI)
Eligibility Self-Assessment Tool (ESAT)
Full-time Equivalent (FTE)
Goods and Services Tax (GST)
Human Resources and Skills Development Canada (HRSDC)
Harmonized Sales Tax (HST)
Information Technology (IT)
Integrated Revenue Collections (IRC)
Management Accountability Framework (MAF)
Memorandum of Understanding (MOU)
Not applicable (N/A)
Not available (n/a)
Non-filer/Non-registrant (NF/NR)
Office of the Auditor General of Canada (OAG)
Organisation for Economic Co-operation and Development (OECD)
Pre-Qualification Process (PQP)
Provincial Sales Tax Administration Reform (PSTAR)
Registered Retirement Savings Plan (RRSP)
Small and medium-sized enterprises (SMEs)
Scientific Research and Experimental Development (SR&ED)
Treasury Board of Canada Secretariat (TBS)
Tax-Free Savings Account (TFSA)
Tax Services Office (TSO)
Universal Child Care Benefit (UCCB)
Underground Economy (UE)
Working Income Tax Benefit (WITB)

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Statement of Management Responsibility Including Internal Control Over Financial Reporting

We have prepared the accompanying financial statements of the Canada Revenue Agency according to accounting principles consistent with those applied in preparing the financial statements of the Government of Canada. Significant accounting policies are set out in Note 2 to the financial statements. Some of the information included in the financial statements, such as accruals and the allowance for doubtful accounts, is based on management's best estimates and judgment, with due consideration to materiality. The Agency's management is responsible for the integrity and objectivity of data in these financial statements. Financial information submitted to the *Public Accounts of Canada* and included in the Agency's Annual Report, is consistent with these financial statements.

To fulfill its accounting and reporting responsibilities, management maintains sets of accounts which provide records of the Agency's financial transactions. Management also maintains financial management and an effective system of internal control over financial reporting (ICFR) that take into account costs, benefits, and risks. They are designed to provide reasonable assurance that transactions are within the authorities provided by Parliament, and by others such as provinces and territories, are executed in accordance with prescribed regulations and the *Financial Administration Act*, and are properly recorded to maintain the accountability of funds and safeguarding of assets.

Financial management and internal control systems are reinforced by the maintenance of internal audit programs. The Agency also seeks to assure the objectivity and integrity of data in its financial statements by the careful selection, training, and development of qualified staff, by organizational arrangements that provide appropriate divisions of responsibility, by communication programs aimed at ensuring that its regulations, policies, standards, and managerial authorities are understood throughout the organization, and by conducting an annual assessment of the effectiveness of its system of ICFR. An assessment for the year ended March 31, 2011 was completed in accordance with the Policy on Internal Control and the results and action plans are summarized in the annex.

The system of ICFR is designed to mitigate risks to a reasonable level based on an on-going process to identify key risks, to assess effectiveness of associated key controls, and to make any necessary adjustments. The effectiveness and adequacy of the Agency's financial management and its system of internal control are reviewed by the work of internal audit staff, who conduct periodic audits of different areas of the Agency's operations and by the Board of Management which is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control and exercises this responsibility through the Audit Committee of the Board of Management. To assure objectivity and freedom from bias, these financial statements have been reviewed by the Audit Committee and approved by the Board of Management. The Audit Committee is independent of management and meets with management, the internal auditors, and the Auditor General of Canada on a regular basis. The auditors have full and free access to the Audit Committee.

The Auditor General of Canada conducts independent audits and expresses separate opinions on the accompanying financial statements which do not include an audit opinion on the annual assessment of the effectiveness of the Agency's internal controls over financial reporting.

Approved by:

L. Lizotte-MacPherson.

Linda Lizotte-MacPherson
Commissioner and
Chief Executive Officer

Filipe Dinis
Chief Financial Officer and Assistant Commissioner,
Finance and Administration

Ottawa, Ontario
August 30, 2011

Canada Revenue Agency Audited Financial Statements – Agency Activities

Auditor General of Canada
Vérificateur général du Canada

INDEPENDENT AUDITOR'S REPORT

To the Board of Management of the Canada Revenue Agency and the Minister of National Revenue.

I have audited the accompanying financial statements of the Agency Activities of the Canada Revenue Agency, which comprise the statement of financial position as at 31 March 2011, and the statement of operations, statement of equity of Canada and statement of cash flow for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Agency Activities of the Canada Revenue Agency as at 31 March 2011, and the results of its operations and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

John Wiersema, FCA
Interim Auditor General of Canada

30 August 2011
Ottawa, Canada

STATEMENT OF FINANCIAL POSITION – AGENCY ACTIVITIES

as at March 31
(in thousands of dollars)

	2011	2010
ASSETS		
Financial assets		
Cash	84	93
Due from the Consolidated Revenue Fund	223,385	181,212
Accounts receivable and advances (Note 4)	7,737	43,174
	231,206	224,479
Non-financial assets		
Prepaid expenses	21,940	17,299
Capital assets (Note 5)	539,471	530,425
	561,411	547,724
TOTAL	**792,617**	**772,203**
LIABILITIES		
Accrued salaries	56,568	49,785
Accounts payable and accrued liabilities (Note 6)	181,411	180,894
Lease obligations for capital assets (Note 7)	13,304	14,732
Vacation pay and compensatory leave	180,775	176,953
Employee severance benefits (Note 8c)	633,270	554,363
Other liabilities	2,675	2,924
	1,068,003	979,651
EQUITY OF CANADA	(275,386)	(207,448)
TOTAL	**792,617**	**772,203**

Contingent liabilities (Note 13), contractual obligations (Note 14) and Net Debt indicator (Note 15)

The accompanying notes form an integral part of these financial statements.

Approved by:

Linda Lizotte-MacPherson
Commissioner and Chief Executive Officer

Susan J. McArthur
Chair, Board of Management

Statement of Operations – Agency Activities

for the year ended March 31
(in thousands of dollars)

	2011 Planned Results	2011	2010
EXPENSES (Note 9)			
Internal services	1,183,933	1,251,966	1,214,854
Reporting compliance	1,121,583	1,137,163	1,106,812
Assessment of returns and payment processing	720,670	757,952	743,713
Accounts receivable and returns compliance	657,412	670,867	653,374
Taxpayer and business assistance	363,309	399,473	374,908
Appeals	222,005	232,511	217,841
Benefit programs	131,891	152,835	127,091
Taxpayer's Ombudsman	3,872	2,813	2,728
TOTAL EXPENSES	4,404,675	4,605,580	4,441,321
NON-TAX REVENUE (Note 10)			
Internal services	260,314	239,788	224,736
Reporting compliance	22,130	23,456	14,679
Assessment of returns and payment processing	74,271	77,007	92,934
Accounts receivable and returns compliance	138,335	158,668	155,506
Taxpayer and business assistance	54,181	57,873	57,274
Appeals	19,302	19,747	19,775
Benefit programs	3,612	33,738	4,517
TOTAL NON-TAX REVENUE	572,145	610,277	569,421
NET COST OF OPERATIONS	**3,832,530**	**3,995,303**	**3,871,900**

The accompanying notes form an integral part of these financial statements.

Statement of Equity of Canada – Agency Activities

for the year ended March 31
(in thousands of dollars)

	2011	2010
Equity of Canada, beginning of year	(207,448)	(313,284)
Net cost of operations	(3,995,303)	(3,871,900)
Net cash provided by Government	3,623,703	3,827,331
Services received without charge from other government agencies and departments (Note 11)	261,489	269,188
Change in due from the Consolidated Revenue Fund	42,173	(118,783)
EQUITY OF CANADA, END OF YEAR	**(275,386)**	**(207,448)**

The accompanying notes form an integral part of these financial statements.

Statement of Cash Flow – Agency Activities

for the year ended March 31
(in thousands of dollars)

	2011	2010
OPERATING ACTIVITIES		
Net cost of operations	3,995,303	3,871,900
Items not affecting cash		
Amortization of capital assets (Note 5)	(94,564)	(86,838)
Net loss on disposal/write-off of capital assets	(6,427)	(10,245)
Services received without charge from other government agencies and departments (Note 11)	(261,489)	(269,188)
Change in financial assets other than due from the Consolidated Revenue Fund	(35,446)	35,485
Change in prepaid expenses	4,641	(2,034)
Change in liabilities other than lease obligations for capital assets	(89,780)	151,729
CASH USED BY OPERATING ACTIVITIES	3,512,238	3,690,809
CAPITAL INVESTING ACTIVITIES		
Acquisition of capital assets funded by current year appropriations (Note 3b)	101,093	127,404
Acquisition of capital assets not funded by current year appropriations	9,258	10,584
Proceeds from disposal of capital assets	(314)	(296)
CASH USED BY CAPITAL INVESTING ACTIVITIES	110,037	137,692
FINANCING ACTIVITIES		
Increase in lease obligations for capital assets	(5,503)	(5,363)
Payment of lease obligations for capital assets	6,931	4,193
CASH USED (PROVIDED) BY FINANCING ACTIVITIES	1,428	(1,170)
NET CASH PROVIDED BY THE GOVERNMENT OF CANADA	**3,623,703**	**3,827,331**

The accompanying notes form an integral part of these financial statements.

Notes to the Financial Statements

1. Authority and objectives

The Canada Revenue Agency (the "Agency") is an agent of Her Majesty in right of Canada under the *Canada Revenue Agency Act*. The Agency is a departmental corporation named in Schedule II of the *Financial Administration Act* and reports to Parliament through the Minister of National Revenue.

The mandate of the Agency is to support the administration and enforcement of tax legislation as well as other related legislation. The Agency provides support, advice, and services by:

(a) supporting the administration and enforcement of program legislation;

(b) implementing agreements between the Government of Canada or the Agency and the government of a province, territory or other public body performing a function of government in Canada to carry out an activity or administer a tax or program;

(c) implementing agreements or arrangements between the Agency and departments or agencies of the Government of Canada to carry out an activity or administer a program; and

(d) implementing agreements between the Government of Canada and First Nations governments to administer a tax.

The Agency collects revenues, including income and sales taxes and Employment Insurance (EI) premiums, administers tax legislation, delivers a number of social benefit programs to Canadians for the federal government, as well as for provincial, territorial, and First Nations governments and collects amounts for other groups or organizations, including Canada Pension Plan (CPP) contributions. It is responsible for the administration and enforcement of the following acts or parts of acts: the *Air Travellers Security Charge Act*, the *Canada Revenue Agency Act*, the *Children's Special Allowances Act*, Part V.1 of the *Customs Act*, section 2 of the *Energy Costs Assistance Measures Act*, the *Excise Act*, the *Excise Tax Act* (including the Goods and Services Tax (GST) and the Harmonized Sales Tax (HST) except for GST/HST on imported goods), the *Excise Act, 2001*, the *Income Tax Act*, the *Softwood Lumber Products Export Charge Act, 2006*, the *Universal Child Care Benefit Act*, and others including various provincial acts.

In delivering its mandate, the Agency operates under the following program activities:

(a) Internal services: Provides internal services across the Agency, such as human resources management, financial management and information technology, to support the needs of programs and corporate obligations;

(b) Reporting compliance: Verifies complete and accurate disclosure by taxpayers of all required information to establish tax liabilities;

(c) Assessment of returns and payment processing: Processes and validates taxpayer returns; registers, establishes, and maintains taxpayer accounts; and, receives payments;

(d) Accounts receivable and returns compliance: Identifies and addresses non-compliance with taxpayer filing and remittance requirements;

(e) Taxpayer and business assistance: Assists taxpayers in meeting their obligations under the self-assessment;

(f) Appeals: Provides a dispute resolution process for taxpayers who disagree with decisions taken by the Agency;

(g) Benefit programs: Provides Canadians certain income-based benefits, credits and other services on behalf of federal, provincial (except Québec), and territorial governments;

(h) Taxpayers' Ombudsman: Addresses requests for reviews made by taxpayers and benefit recipients with respect to service matters.

2. Summary of significant accounting policies

For financial reporting purposes, the activities of the Agency have been divided into two sets of financial statements: Agency Activities and Administered Activities. The financial statements - Agency Activities include those operational revenues and expenses which are managed by the Agency and utilized in running the organization. The financial statements - Administered Activities include those revenues and expenses that are administered for someone other than the Agency, such as the federal government, a province or territory, or another group or organization. The purpose of the distinction between Agency and Administered activities is to facilitate, among other things, the assessment of the administrative efficiency of the Agency in achieving its mandate.

As required by the *Canada Revenue Agency Act,* the financial statements - Agency Activities have been prepared using accounting principles consistent with those applied in the preparation of the financial statements of the Government of Canada. The accounting principles used are based on Canadian generally accepted accounting principles for the public sector, except as disclosed in Note 15 - Net Debt Indicator. A summary of significant accounting policies follows:

(a) Parliamentary appropriations

The Agency is financed by the Government of Canada through Parliamentary appropriations. Accounting for appropriations provided to the Agency does not parallel financial reporting according to Canadian generally accepted accounting principles, as they are based in large part on cash flow requirements. Consequently, items recognized in the Statement of Financial Position and the Statement of Operations may be different from those provided through appropriations from Parliament. Note 3(b) provides a high-level reconciliation between the two bases of reporting. The planned results in the Statement of Operations are the amounts reported in the future-oriented financial statements included in the 2010-2011 Report on Plans and Priorities.

(b) Net cash provided by the Government of Canada

The Agency operates within the Consolidated Revenue Fund (CRF), which is administered by the Receiver General for Canada. All cash receipts are deposited to the CRF and all cash disbursements are paid from the CRF. The net cash provided by government is the difference between all cash receipts and all cash disbursements including transactions with departments and agencies.

(c) Expense recognition

Expenses are recognized when goods are received and/or services are rendered.

(d) Services received without charge from other government agencies and departments

Estimates of the cost for services received without charge from other government agencies and departments are included in expenses.

(e) Revenue recognition

Non-tax revenue is recognized when the services are rendered by the Agency.

(f) Due from the Consolidated Revenue Fund (CRF)

Amounts due from the CRF are the result of timing differences between when a transaction affects authorities and when it is processed through the CRF. Amounts due from the CRF represent the net amount of cash that the Agency is entitled to draw from the CRF without further authorities.

(g) Accounts receivable and advances

Accounts receivable and advances are stated at the lower of cost and net recoverable value. An allowance for doubtful accounts is recorded where recovery is considered uncertain.

(h) Capital assets

All costs of $10,000 or more incurred by the Agency to acquire or develop capital assets are capitalized and amortized over the useful lives of the assets. Similar items under $10,000 are expensed.

Capital assets are amortized on a straight-line basis over the estimated useful lives of assets as follows:

Asset class	Useful life
Machinery, equipment, and furniture	10 years
In-house developed software	5-10 years
Vehicles and other means of transportation	5 years
Information technology equipment	5 years
Purchased software	3 years
Leased capital assets	Term of the lease

Assets under construction/development are not amortized until completed and put into operation.

(i) Vacation pay and compensatory leave

Vacation pay and compensatory leave are expensed as the benefits accrue to employees under their respective terms of employment. The liability for vacation pay and compensatory leave is calculated at the salary levels in effect at the end of the year for all unused vacation pay and compensatory leave benefits accruing to employees.

(j) Employee future benefits

(i) Pension benefits

All eligible employees participate in the Public Service Pension Plan administered by the Government of Canada. The Agency's contributions reflect the full cost as employer. These amounts are currently based on a multiple of an employee's required contributions and may change over time depending on the experience of the Plan. The Agency's contributions are expensed during the year in which the services are rendered and represent the total pension obligation of the Agency. Current legislation does not require the Agency to make contributions with respect to any actuarial deficiencies of the Public Service Pension Plan.

(ii) Health and Dental benefits

The Government of Canada sponsors an employee benefit plan (health and dental) in which the Agency participates. Employees are entitled to health and dental benefits, as provided for under labour contracts and conditions of employment. The Agency's contributions to the plan, which are provided without charge by the Treasury Board Secretariat, are recorded at cost and charged to personnel expenses in the year incurred. They represent the Agency's total obligation to the plan. Current legislation does not require the Agency to make contributions for any future unfunded liabilities of the plan.

(iii) Severance benefits

Employees are entitled to severance benefits, as provided for under labour contracts and conditions of employment. The cost of these benefits is accrued as employees render the services necessary to earn them. These benefits represent an obligation of the Agency that entails settlement by future payments. The obligation resulting from the benefits earned by employees is calculated using information derived from the results of the actuarially determined liability for employee severance benefits for the Agency.

(k) Contingent liabilities

Contingent liabilities are potential liabilities that may become actual liabilities when one or more future events occur or fail to occur. To the extent that the future event is likely to occur or fail to occur, and a reasonable estimate of the loss can be made, an estimated liability is accrued and an expense recorded. If the likelihood is not determinable, the Agency's best estimate of the contingency is disclosed in the notes to the financial statements.

(l) Measurement uncertainty

The preparation of these financial statements in accordance with Canadian generally accepted accounting principles for the public sector requires management to make estimates and assumptions that affect the amounts of assets, liabilities, revenues, expenses and related disclosure reported on the financial statements. At the time of preparation of these statements, management believes the estimates and assumptions to be reasonable. Employee severance benefits, contingent liabilities, the useful life of capital assets, services received without charge and the allowance for doubtful accounts are the most significant items where estimates and assumptions are used. Actual results could differ significantly from the current estimates. The estimates are reviewed periodically and, as adjustments become necessary, they are reported in the financial statements in the period in which they become known.

3. Parliamentary appropriations

The Agency receives most of its funding through annual Parliamentary appropriations. Items recognized in the Statement of Financial Position and the Statement of Operations in one year may be funded through Parliamentary appropriations in prior, current, or future years. Accordingly, the Agency has different net results of operations for the year on a government funding basis than on an accrual accounting basis. These differences are reconciled below.

(a) Reconciliation of Parliamentary appropriations provided and used:

	2011	2010
	(in thousands of dollars)	
Parliamentary appropriations — provided:		
Vote 1– CRA operating expenditures	3,297,040	3,477,046
Vote 5– CRA capital expenditures[1]	141,243	-
Amounts available for spending per section 60(2) of the *Canada Revenue Agency Act*	245,118	213,920
Spending of proceeds from disposal of surplus Crown assets	196	111
Statutory expenditures:		
Contributions to employee benefits plans	466,012	469,401
Payments to provinces under the *Softwood Lumber Products Export Charge Act, 2006*[2]	220,735	205,545
Children's Special Allowance Payments[2]	222,438	215,264
Other[2]	3,932	4,873
	4,596,714	4,586,160
Less:		
Appropriations available for future years[3]		
Operating	(126,260)	(150,326)
Capital[1]	(51,747)	-
Appropriations lapsed - Operating[3]	(140)	(29,287)
Expenditures related to Administered Activities[2]	(443,182)	(421,337)
	(621,329)	(600,950)
Total Parliamentary appropriations used	**3,975,385**	**3,985,210**

[1] As required by the Treasury Board Secretariat, CRA is presenting a separate Vote for capital expenditures for the first time in 2010-2011. In prior years, capital expenditures were included in the operating vote.

[2] In accordance with the division of activities for financial reporting purposes outlined in Note 2, the ex-gratia payments for Relief for Heating Expense, which were authorized through Vote 1 - CRA Operating expenditures, as well as the payments under the *Softwood Lumber Products Export Charge Act*, the Children's Special Allowance and the Energy Cost Benefit payments, are reported as federal administered expenses on the Statement of Administered Expenses and Recoveries of the Agency's Administered Activities financial statements.

[3] Pursuant to section 60(1) of the *Canada Revenue Agency Act*, the balance of money appropriated by Parliament for the use of the Agency that remains unexpended at the end of the fiscal year lapses at the end of the following fiscal year.

(b) Reconciliation of net cost of operations to total Parliamentary appropriations used:

	2011	2010
	(in thousands of dollars)	
Net cost of operations	3,995,303	3,871,900
Expenses not requiring use of current year appropriations:		
Amortization of capital assets (Note 5)	(94,564)	(86,838)
Adjustment to prior years' accruals	6,021	3,243
Loss on disposal/write-off of capital assets	(6,699)	(10,432)
Services received without charge from other government agencies and departments (Note 11)	(261,489)	(269,188)
Other	10,506	5,938
	(346,225)	(357,277)
Changes to non financial assets affecting appropriations:		
Capital assets acquisitions	101,093	127,404
Variation in prepaid expenses	4,641	(2,034)
	105,734	125,370
Changes to future funding requirements:		
Employee severance benefits	(78,907)	65,483
Salary, vacation pay and compensatory leave	(3,822)	11,154
	(82,729)	76,637
Non-tax revenue not credited to Vote 1 (Note 10):		
Non-tax revenue available for spending	243,632	212,904
Non-tax revenue not available for spending	59,670	55,676
	303,302	268,580
Total Parliamentary appropriations used	**3,975,385**	**3,985,210**

4. Accounts receivable and advances

	2011	2010
	(in thousands of dollars)	
Accounts receivable – Related parties	3,056	37,861
Accounts receivable – External	813	1,144
Advances to employees	1,717	1,872
Salary overpayments	3,025	3,075
	8,611	43,952
Less: Allowance for doubtful accounts	(874)	(778)
Total	**7,737**	**43,174**

5. Capital assets

	Cost			
Capital Asset Class	**Opening balance**	**Acquisitions**	**Disposals and adjustments**	**Closing balance**
	(in thousands of dollars)			
Machinery, equipment and furniture	14,004	4,540	6,208	12,336
Software (purchased and in-house developed and/or in development)	651,259	83,284	19,363	715,180
Vehicles and other means of transportation	2,591	237	523	2,305
Information technology equipment including leased assets (Note 7)	205,231	22,290	11,874	215,647
Total	**873,085**	**110,351**	**37,968**	**945,468**

	Accumulated amortization			
Capital Asset Class	**Opening balance**	**Amortization expense**	**Disposals and adjustments**	**Closing balance**
	(in thousands of dollars)			
Machinery, equipment and furniture	9,571	793	5,352	5,012
Software (purchased and in-house developed and/or in development)	222,951	59,664	13,662	268,953
Vehicles and other means of transportation	1,662	341	490	1,513
Information technology equipment including leased assets (Note 7)	108,476	33,766	11,723	130,519
Total	**342,660**	**94,564**	**31,227**	**405,997**

Capital Asset Class	**2011 Net book value**	**2010 Net book value**
	(in thousands of dollars)	
Machinery, equipment and furniture	7,324	4,433
Software (purchased and in-house developed and/or in development)	446,227	428,308
Vehicles and other means of transportation	792	929
Information technology equipment including leased assets (Note 7)	85,128	96,755
Total	**539,471**	**530,425**

The cost of software in development, which is not amortized, is $154,329,914 as at March 31, 2011 ($227,841,892 as at March 31, 2010).

6. Accounts payable and accrued liabilities

	2011	**2010**
	(in thousands of dollars)	
Accounts Payable and accrued liabilities - Related parties	60,803	68,587
Accounts Payable and accrued liabilities - External	120,608	112,307
	181,411	**180,894**

7. Lease obligations for capital assets

The Agency has entered into agreements to rent information technology equipment under capital leases with a cost of $26,240,713 and accumulated amortization of $12,499,900 as at March 31, 2011 ($20,737,435 and $5,770,101 respectively as at March 31, 2010). These capital leases expire on September 30, 2012. The obligations for the upcoming years include the following:

	2011	2010
	(in thousands of dollars)	
2010-2011	-	6,109
2011-2012	9,039	6,109
2012-2013	4,520	3,055
Total future minimum lease payments	13,559	15,273
Less: imputed interest (1.52% to 3.32%)	255	541
Balance of lease obligations for capital assets	**13,304**	**14,732**

8. Employee future benefits

(a) Pension benefits

The Agency and all eligible employees contribute to the Public Service Pension Plan, which is sponsored by the Government of Canada. Pension benefits accrue up to a maximum period of 35 years at a rate of two percent per year of pensionable service, times the average of the best five consecutive years of earnings. The benefits are integrated with Canada/Québec Pension Plans benefits and they are indexed to the increase in the Consumer Price Index.

The Agency's and employees' contributions to the Public Service Pension Plan for the year were as follows:

	2011	2010
	(in thousands of dollars)	
Agency's contributions	327,140	338,907
Employees' contributions	164,802	163,419

The Agency's responsibility with regard to the Plan is limited to its contributions. Actuarial surpluses or deficiencies are recognized in the financial statements of the Government of Canada.

(b) Health and Dental benefits

The Agency and all eligible employees contribute to the Public Service Health Care Plan and Public Service Dental Care Plan, which are sponsored by the Government of Canada.

The Agency's responsibility with regard to these plans is limited to its contributions. Actuarial surpluses or deficiencies are recognized in the financial statements of the Government of Canada.

(c) Severance benefits

The Agency provides severance benefits to its employees based on eligibility, years of service and salary upon termination. This benefit plan is not pre-funded and thus has no assets, resulting in a plan deficit equal to the accrued benefit obligation. Benefits will be paid from future appropriations. Information about the severance benefits, measured as at March 31, is as follows:

	2011	2010
	(in thousands of dollars)	
Employee severance benefits, beginning of year	554,363	619,846
Cost for the year	125,687	(25,071)
Benefits paid during the year	(46,780)	(40,412)
Employee severance benefits, end of year	**633,270**	**554,363**

9. Segmented information - Expenses

The following table presents the expenses by program activity and expense category as described in Note 1 of these financial statements.

	Internal services	Reporting compliance	Assessment of returns and payment processing	Accounts receivable and returns compliance	Taxpayer and business assistance	Appeals	Benefit programs	Taxpayers' Ombudsman	2011	2010
									(in thousands of dollars)	
Personnel:										
Salaries	558,520	673,207	318,454	384,911	226,750	86,106	82,282	1,584	2,331,814	2,301,210
Other allowances and benefits (including employee benefits described in Note 8)	248,606	317,430	142,465	187,468	111,157	40,781	28,845	765	1,077,517	929,087
	807,126	990,637	460,919	572,379	337,907	126,887	111,127	2,349	3,409,331	3,230,297
Accommodation	83,774	85,376	39,830	57,743	40,685	9,975	9,836	194	327,413	331,587
Professional and business services	73,945	16,365	4,081	15,138	5,688	87,476	1,585	35	204,313	210,024
Transportation and communications	74,668	21,382	62,615	14,704	5,302	1,400	14,709	81	194,861	197,804
Federal sales tax administration costs by the Province of Québec	-	-	142,179	-	-	-	-	-	142,179	148,437
Repair and maintenance	93,421	159	440	802	27	-	-	-	94,849	71,087
Amortization of capital assets (Note 5)	52,049	6,595	28,754	1,157	2,572	1,195	2,194	48	94,564	86,838
Equipment purchases	29,183	6,338	4,529	3,608	1,183	576	390	14	45,821	56,195
Other services and expenses	6,489	6,176	3,060	3,190	4,349	4,368	12,242	22	39,896	39,042
Materials and supplies	13,394	3,048	10,324	1,730	1,147	468	414	32	30,557	37,067
Advertising, information and printing services	9,857	130	96	-	355	36	269	32	10,775	17,756
Loss on disposal/write-off of capital assets	5,952	59	620	50	9	4	4	1	6,699	10,432
Equipment rentals	2,108	898	505	366	249	126	65	5	4,322	4,755
Total	**1,251,966**	**1,137,163**	**757,952**	**670,867**	**399,473**	**232,511**	**152,835**	**2,813**	**4,605,580**	**4,441,321**

10. Segmented information- Non-tax revenue

The following table presents the revenues generated by program activity and revenue category as described in Note 1 of these financial statements.

	Internal services	Reporting compliance	Assessment of returns and payment processing	Accounts receivable and returns compliance	Taxpayer and business assistance	Appeals	Benefit programs	2011	2010
								(in thousands of dollars)	
Non-tax revenue credited to Vote 1 - CRA Operating expenditures									
Fees for administering the *Employment Insurance Act*	45,863	-	11,851	73,491	29,725	10,001	356	171,287	167,067
Fees for administering the *Canada Pension Plan*	37,613	-	16,355	62,284	16,249	3,187	-	135,688	133,774
	83,476	-	28,206	135,775	45,974	13,188	356	306,975	300,841
Non-tax revenue available for spending									
Services fees	147,923	63	4,272	202	260	-	514	153,234	155,001
Administration fees - provinces and territories	9	18,310	34,880	221	1,223	3,327	30,025	87,995	55,397
Miscellaneous respendable revenue	147	378	52	-	1,820	-	6	2,403	2,506
	148,079	18,751	39,204	423	3,303	3,327	30,545	243,632	212,904
Non-tax revenue not available for spending									
Recovery of employee benefit costs relating to non-tax revenue credited to Vote 1 and revenue available for spending	7,253	4,705	9,597	22,470	8,596	2,528	2,837	57,986	53,248
Miscellaneous non-tax revenue	980	-	-	-	-	704	-	1,684	2,428
	8,233	4,705	9,597	22,470	8,596	3,232	2,837	59,670	55,676
Total	**239,788**	**23,456**	**77,007**	**158,668**	**57,873**	**19,747**	**33,738**	**610,277**	**569,421**

11. Related party transactions

The Agency is related in terms of common ownership to all Government of Canada departments, agencies, and Crown corporations. Transactions with Crown Corporations entered into by the Agency are in the normal course of business and on normal trade terms applicable to all individuals and enterprises. Transactions with other Government of Canada departments and Agencies are conducted on a cost recovery basis.

During the year, the Agency received various services without charge from other government agencies and departments. The estimated costs for significant services received without charge include:

	2011	2010
	(in thousands of dollars)	
Employer's contribution to the health and dental insurance plans – Treasury Board Secretariat	209,178	209,260
Legal services – Justice Canada	45,918	53,518
Audit services – Office of the Auditor General of Canada	2,409	2,486
Payroll services – Public Works and Government Services Canada	2,333	2,362
Workers' compensation benefits – Human Resources and Skills Development Canada	1,651	1,562
Total	**261,489**	**269,188**

12. Board of Management

Pursuant to the *Canada Revenue Agency Act*, a Board of Management is appointed to oversee the organization and administration of the Agency and the management of its resources, services, property, personnel and contracts. The expenses relating to the Board's activities for the year included in the net cost of operations were as follows:

	2011	2010
	(in thousands of dollars)	
Board of Management		
Compensation	303	403
Travel	156	176
Professional services and other expenses	105	247
	564	826
Other related costs		
Corporate Secretariat support	707	729
Total	**1,271**	**1,555**

13. Contingent liabilities

The Agency is a defendant in certain cases of pending and threatened litigation which arose in the normal course of operations. The current best estimate of the amount to be paid in respect of the cases identified as likely to be lost has been recorded in Accounts payable and accrued liabilities. All other cases, excluding those assessed as unlikely to be lost, are considered contingent liabilities and the related amounts are disclosed whenever the amount of the contingency can be reasonably estimated. As at March 31, 2011, contingent liabilities for claims and pending and threatened litigation have been estimated at $52,131,223 ($27,716,223 as at March 31, 2010).

14. Contractual obligations

The nature of the Agency's activities can result in multiyear contracts and obligations whereby the Agency will be committed to make future payments when the goods are received and/or the services are rendered. Significant contractual obligations, other than lease obligations for capital assets (Note 7), that can be reasonably estimated are as follows:

	2012	2013	2014	2015	2016 and thereafter	Total
			(in thousands of dollars)			
Operating leases	106	67	42	32	126	373

15. Net Debt indicator

The presentation of the net debt indicator and a statement of change in net debt is required under Canadian generally accepted accounting principles for the public sector.

Net debt is the difference between a government's liabilities and its financial assets and is meant to provide a measure of the future revenues required to pay for past transactions and events. A statement of change in net debt would show changes during the period in components such as capital assets and prepaid expenses. Departments and agencies are financed by the Government of Canada through appropriations and operate within the Consolidated Revenue Fund (CRF), which is administered by the Receiver General for Canada. All cash received by departments and agencies is deposited to the CRF and all cash disbursements made by departments and agencies are paid by the CRF. Under this government business model, assets reflected on the financial statements, with the exception of the Due from the CRF, are not available to use for the purpose of discharging the existing liabilities of the Agency. Future appropriations and any respendable revenues generated by the Agency's operations would be used to discharge existing liabilities.

	2011	2010
	(in thousands of dollars)	
LIABILITIES		
Accrued salaries	56,568	49,785
Accounts payable and accrued liabilities (Note 6)	181,411	180,894
Lease obligations for capital assets (Note 7)	13,304	14,732
Vacation pay and compensatory leave	180,775	176,953
Employee severance benefits (Note 8c)	633,270	554,363
Other liabilities	2,675	2,924
Total Financial Liabilities	**1,068,003**	**979,651**
Financial assets		
Cash	84	93
Due from the Consolidated Revenue Fund	223,385	181,212
Accounts receivable and advances (Note 4)	7,737	43,174
Total Financial Assets	**231,206**	**224,479**
Net Debt Indicator	**836,797**	**755,172**

16. Subsequent event

On August 26, 2011 the Province of British Columbia announced that it will return to the provincial sales tax. The impact, if any, on these financial statements is unknown at this time.

17. Comparative figures

Certain comparative figures have been reclassified to conform with the presentation used in the current year.

Financial Statements Discussion and Analysis – Agency Activities

Introduction

This section of the Financial Statements provides unaudited supplementary information on Agency Activities, on an accrual basis, as reported in the audited Financial Statements. It also provides an overview of the Enterprise Risk Management.

Financial Statements Highlights

There are three significant program administration changes which have influenced the results in the Financial Statements.

1. Provincial Sales Tax Administration Reform

On July 1, 2010, the CRA successfully implemented the Harmonized Sales Tax (HST) in the provinces of Ontario and British Columbia. However, on August 26, 2011 the Province of British Columbia announced that it will return to the provincial sales tax. The transition period is expected to take a minimum of 18 months. During this period, the Agency will continue to administer the HST in British Columbia.

The CRA has received funding for 2010-2011 and subsequent years of $710 million (including employee benefit plan contributions and accommodation charges) and authority to spend $21.7 million of internal CRA funds for the continuing implementation and administration of the HST in Ontario and British Columbia. Of this amount, $91.7 million was received to cover costs in 2010-2011. Funding was used to enhance service to taxpayers, further develop capacity to identify and address the risk of HST non-compliance, transition affected provincial employees to the Agency, implement remaining IT system modifications, and administer new province-specific HST flexibilities in Ontario and British Columbia.

Program enhancements to address the increased risk of HST non-compliance and completing the necessary system changes will continue to be a priority for the Agency in 2011-2012.

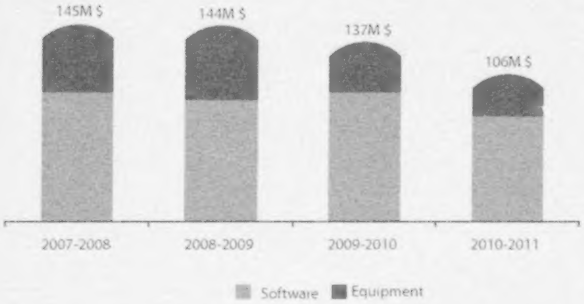
2. New Authorities for Capital Assets

The CRA established a separate Capital Expenditures Vote as of April 1, 2010, meaning the Agency's Capital asset expenditures, with the exception of certain year-end adjustments, were funded by a distinct capital budget authority. Previously, capital amounts were included in, and funded out of, the Operating Vote Authority.

In fiscal year 2011, the Agency's capital expenditures totalled $110.4 million. The Agency carried forward an amount of $52 million, which was a result of an overestimated capital budget requirement at the time Main Estimates were prepared due to changes in assumptions regarding the terms and conditions of procurement agreements. The unused balance of capital funding will be used to finance capital purchases in fiscal year 2012.

As outlined in the table below, the CRA continued to invest in information technology (IT) systems in order to ensure modern and efficient program delivery. The Agency had several large-scale projects that required substantial investments in the development of IT systems. Combined with the acquisition of IT hardware, the Agency invested $106 million in IT related capital assets this fiscal year. The value of these new capital assets has been offset by amortization expenses of $93.4 million in 2010-11.

Figure 21 Information Technology Investment in Capital Assets



3. Impact of 2010 Federal Budget - Collective Bargaining

As part of the 2010 Federal Budget, and to support its priority of restoring fiscal balance, the Government announced a freeze on the operating budgets of departments and agencies until 2012-2013. As a result, no incremental funding was provided to organizations for the costs of wage increases.

In fiscal year 2010-2011, the Agency managed these operating pressures in a decentralised manner by requiring individual budget managers to absorb them within existing budgets. The funding shortfall of approximately $13 million was primarily comprised of the economic increases associated with the Public Service Alliance of Canada (PSAC) and the Professional Institute of the Public Service of Canada (PIPSC) collective agreements, as well as salary increases for the Human Resource (HR) and Executive/Cadre (EC) groups.

Given the magnitude of the pressures associated with non compensated wage and salary cost increases in future years, the Agency has undertaken a targeted program spending realignment review to identify potential sources of funding. The reduction in spending will primarily be achieved through general administrative and program efficiencies.

Analysis of Net Cost of Operations

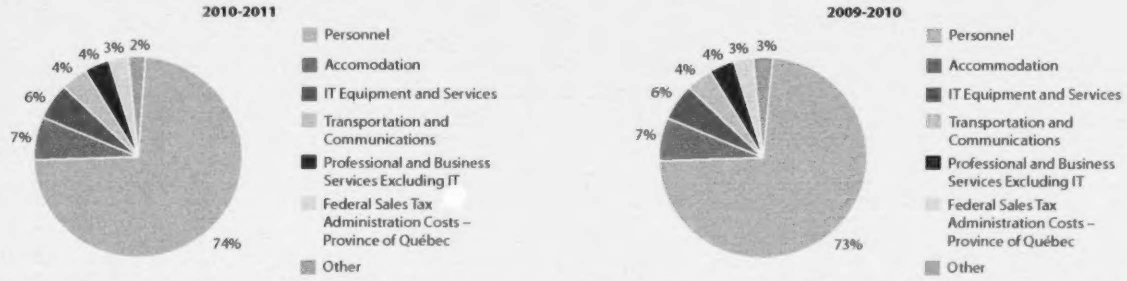
The Agency's 2010-2011 net cost of operations increased by $123 million from 2009-2010. Agency expenses totaled $4,606 million in 2010-2011 (2009-2010 - $4,441 million) (see Note 9 of the Financial Statements - Agency Activities for the breakdown of expenses by category). When adjusting for non-tax revenue of $610 million (2009-2010 - $569 million), the net cost of operations amounts to $3,995 million, as illustrated below:

Details on the net cost of operations

Expenses	**2011**	**2010**
	(in thousands of dollars)	
Personnel	3,409,331	3,230,297
Accommodation	327,413	331,587
IT equipment and services	282,143	256,778
Transportation and communications	194,861	197,804
Professional and business services excluding IT	160,251	162,506
Federal sales tax administration costs – Province of Québec	142,179	148,437
Other	89,402	113,912
Total expenses	**4,605,580**	**4,441,321**
Less: Non-tax revenue	610,277	569,421
Net cost of operations	**3,995,303**	**3,871,900**

The Agency's expenses are composed of 74% in personnel expenses (salaries, other allowances and benefits) and 26% in non-personnel expenses, as illustrated in the figure below.

Figure 22 Total Expenses by Type



Personnel expenses are the primary drivers for the Agency. A number of factors contributed to the net increase of $179 million for this type of expenses in 2010-2011, the most significant being the increase in the rate used to calculate severance benefits. Additional costs were also incurred for salary revisions pursuant to collective agreements provisions.

Significant elements of non-personnel expenses are composed of accommodation, IT equipment and services, transportation and communication expenses. In total, non-personnel expenses decreased by $15 million, which is mainly attributable to the reduction in expenses relating to accommodations, travel and telecommunication, advertising and materials and supplies, offset by an increase in IT equipment and services.

Enterprise Risk Management

The purpose of the Enterprise Risk Management (ERM) Program is to ensure that the Canada Revenue Agency (CRA) develops and implements a systematic, comprehensive approach to managing risks that is fully integrated into decision-making, planning and reporting processes and mechanisms.

Throughout the year, the Agency delivered risk management training for managers and executives. It has also continued to support the development of the organisation's risk management capacity by maintaining a risk management module in its Managers Learning Program and by introducing a risk management segment to a new Executive Cadre Learning Program piloted over the course of the year. Overall, more than 600 CRA employees were able to obtain risk management training in 2010-11.

In 2010-11, the Agency continued its efforts to better align corporate risk management with its planning and resource allocation cycles. ERM activities and deliverables were reviewed and timelines adjusted to allow for a better integration of risk information and commitments into other key products and processes including the Corporate Business Plan, the Corporate Audit and Evaluation Plan, the Strategic Investment Plan, and the Executive Cadre's Accountability Regime.

The two key ERM products in support of corporate risk management are the Corporate Risk Inventory (CRI), which defines the risks faced by the Agency, and the CRA Risk Action Plan (RAP), which highlights the Agency's efforts in ensuring controls remain effective, actions to manage risk are developed and implemented, and risks are reviewed and monitored regularly. To assess progress in pursuing the mitigation measures included in the CRA RAP, released in January 2010 and aligned with CRA priorities as outlined in the *Corporate Business Plan for the 2010-2011 to 2012-2013* planning period, the Agency gathered status updates on key initiatives.

Furthermore, in order to ensure continued relevance of risk information, the Agency updated its risk inventory. The CRI 2010 was developed over the course of the year and, while some incremental changes were made, the risks themselves remained stable.

The CRI 2010, is comprised of 6 primary risk themes.

Taxpayer Compliance

One of the CRA's key program outcomes is to ensure compliance with tax laws on behalf of governments across Canada. The CRA's fundamental approach is to encourage taxpayers to fulfill their tax obligations. While the vast majority of taxpayers are compliant, the current economic context could result in increased compliance challenges.

Government of Canada Legislative, Regulatory and Policy Framework

While the CRA has legislated authority over many aspects of its business, the organization must still deliver its programs according to the Government of Canada's (GoC) legislative, regulatory and policy framework. The complexity and constant evolution of GoC rules create challenges for the Agency as efforts are needed to ensure the organization adjusts in a timely fashion.

Resources and Performance

The effects of a sound strategic resource allocation process are directly linked to our performance as an organization. In order to ensure optimal performance, the CRA needs to leverage its financial resources and ensure the flexibility to adapt rapidly and effectively to change. This must be done while proactively managing the service expectations of taxpayers.

Skilled, knowledgeable and Ethical Workforce

Among the CRA's most important assets are the skills and talents of its people, their knowledge and the ethical behaviour and standards by which they fulfill their responsibilities. While recognizing that current demographic trends may present significant challenges for the organization, the CRA must continue to strive to hire the right people with the right skills, capitalize on corporate knowledge and ensure the highest ethical standards are maintained throughout the Agency.

Protection of Information

As a result of the CRA's mandate and the nature of its work, significant amounts of personal and sensitive information are entrusted to the Agency. Protecting the confidentiality of personal and business tax information provided to the CRA is critical for maintaining the trust and confidence of Canadians. Although the CRA's potential exposure to fraudulent activities cannot completely be eliminated, there are currently various mechanisms in place to effectively protect against inappropriate access or disclosure of protected taxpayer and benefit recipient information.

Information Technology

As an advanced and complex organization, the CRA's programs and services depend on a complex information technology environment. The increased complexity of our legislative and business environment in addition to the increased diversity and expectations of external stakeholders put steady pressures on our IT services, facilities and applications to support rapidly changing demands.

Canada Revenue Agency Audited Financial Statements – Administered Activities

Auditor General of Canada
Vérificateur général du Canada

INDEPENDENT AUDITOR'S REPORT

To the Board of Management of the Canada Revenue Agency and the Minister of National Revenue.

I have audited the accompanying statement of administered assets and liabilities of the Canada Revenue Agency as at 31 March 2011, the statement of administered revenues and pension contributions, statement of administered expenses and recoveries and statement of administered cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information (together "the financial information"). The financial information has been prepared by management using the basis of accounting described in Note 2.

Management's Responsibility for the Financial Information

Management is responsible for the preparation and fair presentation of this financial information in accordance with the basis of accounting described in Note 2; this includes determining that the basis of accounting is an acceptable basis for the preparation of the financial information in the circumstances, and for such internal control as management determines is necessary to enable the preparation of the financial information that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on the financial information based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial information is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial information. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial information, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial information in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial information.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial information presents fairly, in all material respects, the administered assets and liabilities of the Canada Revenue Agency as at 31 March 2011, and the results of its administered operations and its administered cash flows for the year then ended in accordance with the basis of accounting described in Note 2.

Emphasis of Matter

Without modifying my opinion, I draw attention to Note 2 to the financial information. This note describes the purpose and basis of accounting for reporting activities administered by the Canada Revenue Agency on behalf of others. This financial information may not be suitable for another purpose. Management prepares a separate set of financial statements to report the operational revenues and expenses of the Canada Revenue Agency.

John Wiersema, FCA
Interim Auditor General of Canada

30 August 2011
Ottawa, Canada

CANADA REVENUE AGENCY
STATEMENT OF ADMINISTERED ASSETS AND LIABILITIES

as at March 31
(in thousands of dollars)

	2011	2010
ADMINISTERED ASSETS		
Cash on hand	6,418,372	4,910,588
Amounts receivable from taxpayers (Note 3)	76,959,150	67,437,568
Amounts receivable under the Tobacco civil settlements (Note 4)	588,227	647,811
TOTAL ASSETS	**83,965,749**	**72,995,967**
ADMINISTERED LIABILITIES		
Amounts payable to taxpayers (Note 5)	48,647,123	48,254,613
Amounts payable to provinces (Note 6)	650,488	685,239
Deposit accounts (Note 7)	107,642	99,444
	49,405,253	49,039,296
Net amount due to the Consolidated Revenue Fund on behalf of the Government of Canada and others (Note 8)	34,560,496	23,956,671
TOTAL LIABILITIES	**83,965,749**	**72,995,967**

Contingent liabilities (Note 9)

The accompanying notes form an integral part of these financial statements.

Approved by:

L. Lizotte-MacPherson

Linda Lizotte-MacPherson
Commissioner and Chief Executive Officer

Susan J. McArthur
Chair, Board of Management

Canada Revenue Agency
Statement of Administered Revenues and Pension Contributions

for the year ended March 31
(in thousands of dollars)

	2011	2010
Federal administered revenues		
Income Tax Revenues		
Personal and trust	113,571,844	104,053,792
Corporate	29,969,047	30,361,042
Non-resident tax withholdings	5,136,798	5,293,543
	148,677,689	139,708,377
Other Taxes, Duties and Charges		
Goods and Services Tax (Note 10)	11,583,050	11,847,142
Energy taxes	5,298,323	5,149,570
Other Excise taxes and duties	3,301,658	3,066,948
Miscellaneous charges (Note 11)	833,169	602,053
	21,016,200	20,665,713
Total Tax Revenues	169,693,889	160,374,090
Employment Insurance Premiums	17,862,454	17,120,840
Interest, penalties and other revenues (Note 12)	4,028,248	3,484,719
Revenues Administered on behalf of the Government of Canada	**191,584,591**	**180,979,649**
Interest expense	(560,746)	(523,914)
Net Revenues Administered on behalf of the Government of Canada	**191,023,845**	**180,455,735**
Provincial and Territorial Governments and First Nations administered revenues		
Income Tax Revenues		
Personal and trust	48,021,244	47,045,448
Corporate	12,810,324	11,930,666
	60,831,568	58,976,114
Provincial portion of Harmonized Sales Tax (Note 13)	21,693,984	2,912,579
Other revenues (Note 14)	559,599	266,033
Revenues Administered on behalf of Provincial and Territorial Governments and First Nations	**83,085,151**	**62,154,726**
Pension Contributions, Interest and Penalties Administered on behalf of the Canada Pension Plan (Note 15)	**37,177,356**	**36,365,844**
Total Administered Revenues and Pension Contributions	**311,286,352**	**278,976,305**
Other revenues paid or payable directly to provinces as received by the CRA (Note 6 and Note 14)	(526,440)	(230,457)
Total Net Administered Revenues and Pension Contributions	**310,759,912**	**278,745,848**

The accompanying notes form an integral part of these financial statements.

Canada Revenue Agency
Statement of Administered Expenses and Recoveries

for the year ended March 31
(in thousands of dollars)

	2011	2010
Federal administered expenses		
Child tax benefits	10,013,367	9,752,506
Universal child care benefits	2,642,485	2,587,264
Children's special allowances	222,438	215,264
Transfers to provinces for Softwood lumber products export charge	220,735	205,545
Provision for doubtful accounts (Note 3)	3,344,307	2,847,076
Other	9	529
Federal administered recoveries		
Old Age Security benefits	(1,061,615)	(954,785)
Employment Insurance benefits	(224,929)	(217,963)
Net Expenses and Recoveries Administered for the Federal Government	**15,156,797**	**14,435,436**
Provincial and Territorial administered expenses		
Ontario sales tax transition benefit	2,619,861	-
Family benefit programs	1,063,553	921,234
Ontario senior homeowners' property tax credit	199,828	183,226
British Columbia low income climate action tax credit	167,663	157,601
Sales tax credits	1,146,406	112,077
British Columbia climate action dividend	2,296	5,958
Net Expenses Administered for Provinces and Territories	**5,199,607**	**1,380,096**
Provision for Doubtful Accounts Administered for the Canada Pension Plan (Note 3)	**108,073**	**89,307**
Total Net Administered Expenses and Recoveries	**20,464,477**	**15,904,839**

The accompanying notes form an integral part of these financial statements.

Canada Revenue Agency
Statement of Administered Cash Flows

for the year ended March 31
(in thousands of dollars)

	2011	2010
Total Net Administered Revenues and Pension Contributions	310,759,912	278,745,848
Total Net Administered Expenses and Recoveries	(20,464,477)	(15,904,839)
Changes in administered assets and liabilities:		
Cash on hand	(1,507,784)	(53,531)
Amounts receivable from taxpayers net of allowance for doubtful accounts	(9,521,582)	2,710,211
Amounts receivable under the Tobacco civil settlements	59,584	52,089
Amounts payable to taxpayers	392,510	(2,595,584)
Amounts payable to provinces	(34,751)	(23,282)
Deposit accounts	8,198	(8,360)
Net Cash Deposited in the Consolidated Revenue Fund of the Government of Canada	**279,691,610**	**262,922,552**
Consisting of:		
Cash deposits to the Consolidated Revenue Fund	385,666,000	358,440,874
Cash refunds/payments from the Consolidated Revenue Fund	(105,974,390)	(95,518,322)
Net Cash Deposited in the Consolidated Revenue Fund of the Government of Canada	**279,691,610**	**262,922,552**

The accompanying notes form an integral part of these financial statements.

Canada Revenue Agency
Notes to the Financial Statements – Administered Activities

1. Authority and objectives

The Canada Revenue Agency (the "Agency") is an agent of Her Majesty in right of Canada under the *Canada Revenue Agency Act*. The Agency is a departmental corporation named in Schedule II of the *Financial Administration Act* and reports to Parliament through the Minister of National Revenue.

The mandate of the Agency is to support the administration and enforcement of tax legislation as well as other related legislation. The Agency provides support, advice and services by:

(a) supporting the administration and enforcement of the program legislation;

(b) implementing agreements between the Government of Canada or the Agency and the government of a province, territory or other public body performing a function of government in Canada to carry out an activity or administer a tax or program;

(c) implementing agreements or arrangements between the Agency and departments or agencies of the Government of Canada to carry out an activity or administer a program; and

(d) implementing agreements between the Government of Canada and First Nations governments to administer a tax.

The Agency collects revenues, including income and sales taxes and Employment Insurance (EI) premiums, administers tax legislation, delivers a number of social benefit programs to Canadians for the federal government, as well as for provincial, territorial, and First Nations governments and collects amounts for other groups or organizations, including Canada Pension Plan (CPP) contributions. It is responsible for the administration and enforcement of the following acts or parts of acts: the *Air Travellers Security Charge Act*, the *Canada Revenue Agency Act*, the *Children's Special Allowances Act*, Part V.1 of the *Customs Act*, section 2 of the *Energy Costs Assistance Measures Act*, the *Excise Act*, the *Excise Tax Act* (including the Goods and Services Tax (GST) and the Harmonized Sales Tax (HST) except for GST/HST on imported goods), the *Excise Act, 2001*, the *Income Tax Act*, the *Softwood Lumber Products Export Charge Act, 2006*, the *Universal Child Care Benefit Act*, and others including various provincial acts.

In the province of Quebec, the Ministère du Revenu du Québec (MRQ) acts as an agent of the Agency for the administration and enforcement of the GST. The Agency monitors cash transfers made by the MRQ, reports the GST revenues administered on its behalf, and transfers funds out of the Consolidated Revenue Fund to the MRQ for the issuing of refunds.

The Agency's mandate regarding the administration of customs legislation is limited to the collection functions under Part V.1 of the *Customs Act*. As well, the Agency provides to Human Resources and Skills Development Canada (HRSDC) collection services for certain accounts receivable under various acts.

2. Summary of significant accounting policies

For financial reporting purposes, the activities of the Agency have been divided in two sets of financial statements: Agency activities and Administered Activities. The purpose of these Administered Activities statements is to present information about the tax-related revenues, expenses, assets, and liabilities that CRA administers on behalf of the federal government, provincial and territorial governments, First Nations and other organizations. CRA administers personal income tax for all provinces except Quebec and corporate income tax for all provinces except Quebec and Alberta. The financial statements - Agency Activities include those operational revenues and expenses, which are managed by the Agency and utilized in running the organization. Tax-related assets, liabilities, revenues and expenses are excluded from those financial statements because they can only accrue to a government, not the tax agency that administers those transactions.

As required by section 88(2)(a) of the *Canada Revenue Agency Act*, CRA reports against accounting principles that are consistent with those applied in the preparation of the financial statements of the Government of Canada. As such, the CRA Administered Activities stated accounting policies do not result in any significant differences from Canadian generally accepted accounting principles. A summary of the significant accounting policies follows:

(a) Revenue and Pension Contributions recognition

Revenues and pension contributions are recognized in the year in which the event that generates the revenue or the pension contribution occurs. The following policies are applied for specific streams:

(i) Income taxes, Canada Pension Plan contributions, and Employment Insurance premiums:

Income tax revenues are recognized when the taxpayer has earned the income subject to the tax. Income earned is determined net of tax deductions and credits allowed under the *Income Tax Act*, including refundable taxes resulting from current year activity. Canada Pension Plan (CPP) contributions are recognized when the employee or the self-employed person has earned pensionable income. Employment Insurance (EI) premiums are recognized as revenue when the employee has earned insurable earnings.

These revenues and pension contributions are measured from amounts assessed/reassessed and from estimates of amounts not yet assessed/reassessed based on cash received that relates to the fiscal year ended March 31. Revenues and pension contributions for the fiscal year also include adjustments between the estimated revenues of previous years and actual amounts, as well as revenues from reassessments relating to prior years. An additional estimate of future reassessments is only recorded when it can be reliably determined. At the present time, this is limited to cases where amounts for taxes previously assessed are under objection or are being appealed to various courts.

Reassessments include changes made to previously assessed taxes payable at the request of the taxpayer, for example to claim a subsequent loss carry-back, or are initiated by the Agency as a result of applying reporting compliance procedures such as taxpayer audits.

(ii) Other taxes, duties and charges:

Goods and Services Tax (GST) and Harmonized Sales Tax (HST) revenues on domestic goods and services are recognized at the time of the sale of goods or the provision of services. Revenues are reported net of Input Tax Credits (ITC), GST rebates and the GST quarterly tax credit. ITC's are the recovery of GST/HST paid or owed on purchases related to domestic and imported commercial activities of the taxpayer. The GST quarterly tax credit for low income individuals and families is recorded in the period to which it relates. It is intended to offset the cost of the tax for low income individuals and families.

For Excise taxes, revenue is recognized when a taxpayer sells goods taxable under the *Excise Tax Act*. For Excise duties, revenue is recognized when the taxpayer manufactures goods taxable under the *Excise Act* and the *Excise Act, 2001*.

These revenues are measured from amounts assessed, and from estimates of amounts not yet assessed based on cash received that relate to the fiscal year ended March 31. Miscellaneous charges are recognized as revenue when they are earned.

(iii) Interest, penalties and other revenues:

Interest, penalties and other revenues are recorded when earned, except for the Nova Scotia worker's compensation which is recorded as revenue when payments are received from employers. All interest and penalty revenues are reported as revenues administered for the federal government as per the terms of the tax collection agreements with the provinces and territories. Interest and penalties are recorded net of amounts waived under the various tax acts.

(iv) Assessment definition:

An assessment (or reassessment) of tax is defined as all decisions and other steps made or taken by the Minister of National Revenue and officials of the Agency under the federal, provincial and territorial acts or sections of the acts administered by the Agency to determine tax payable by taxpayers. When verifying a taxpayer's return, the Agency uses applicable provisions of the various tax acts it administers as well as other internally developed criteria which are designed to substantially meet the provisions of these acts.

(v) Completeness of tax revenues:

The Canadian tax system is predicated on self-assessment where taxpayers are expected to understand the tax laws and comply with them. This has an impact on the completeness of tax revenues when taxpayers fail to comply with tax laws, for example, if they do not report all of their income. The Agency has implemented systems and controls in order to detect and correct situations where taxpayers are not complying with the various acts it administers. These systems and controls include performing audits of taxpayer records where determined necessary by the Agency. Such procedures cannot be expected to identify all sources of unreported income or other cases of non-compliance with tax laws. The Agency is unable to estimate the amount of unreported tax.

(b) Expenses

(i) Interest expense:

The Agency incurs interest expenses as a result of late refund payments. These are largely due to the resolution of long standing corporate tax files in favour of the taxpayer. Interest accrues from the date that the tax instalment was initially paid to the date that the case is resolved. The Agency records the interest expense in the fiscal year to which it relates.

(ii) Administered expenses:

Expenses relating to child tax benefits, universal child care benefits, energy cost benefits, children's special allowances, relief for heating expenses and provincial and territorial administered expenses are recorded in the year to which they relate based on the period in which the recipients were determined to be entitled to receive the benefit or the allowance. Transfers to provinces for softwood lumber products export charge are recorded as an expense in the same year as the related softwood lumber products export charge revenues are recognized.

(iii) Administered recoveries:

Recoveries of Old Age Security and Employment Insurance benefits are recognized when assessed, with an estimate for amounts not yet assessed. Only recoveries assessed through the personal income tax system are reported by the Agency. Recoveries determined by other federal government departments are not reported in these financial statements.

(c) Cash on hand

Cash on hand represents amounts received in the Agency's offices or by agents of the Agency as at March 31 but not yet deposited to the credit of the Consolidated Revenue Fund of the Government of Canada.

(d) Amounts receivable from taxpayers

Amounts receivable from taxpayers represent taxes, interest and penalties and other revenues assessed or estimated by the Agency but not yet collected. A significant portion of the receivable balance is due to the recording of accrued receivables, which relate to the current fiscal year but are not due to be paid by taxpayers until the next fiscal year.

(e) Allowance for doubtful accounts

The allowance for doubtful accounts reflects management's best estimate of the collectability of amounts assessed, including the related interest and penalties, but not yet paid. The allowance for doubtful accounts has two components. A general allowance is calculated based on the age of the accounts. A specific allowance is calculated based on an annual review of all accounts over $10 million.

The allowance for doubtful accounts is adjusted by an annual provision for doubtful accounts and is reduced by amounts written off as uncollectible during the year. The annual provision is reported in the Statement of Administered Expenses and Recoveries. Except for the portion related to CPP contributions, which is charged to the CPP Account, the provision is charged to expenses administered for the federal government as it assumes all collection risks, as per the terms of the tax collection agreements with the provinces, territories and First Nations.

(f) Amounts payable to taxpayers

Amounts payable to taxpayers represent refunds and related interest assessed, or estimated by the Agency, not paid as at March 31. A significant portion of the payable is due to the recording of accrued payables, which relate to the current year but are not due for payment until the next fiscal year. They include refunds resulting from assessments completed after March 31, and estimates of refunds for personal and corporate income tax not yet assessed.

(g) Contingent liabilities

Contingent liabilities are potential liabilities resulting from, for example, previously assessed taxes recorded as revenue, which may become actual liabilities when one or more future events occur or fail to occur. If the future event is likely to occur or to fail to occur, and a reasonable estimate of the loss can be made, an estimated liability is accrued and the revenues are reduced. If the likelihood is not determinable or an amount cannot be reasonably estimated, the contingency is disclosed in the notes to the financial statements.

(h) Measurement uncertainty

The preparation of these statements requires management to make estimates and assumptions that affect the amounts of assets, liabilities, revenues and expenses and recoveries reported. Estimates are used to record unassessed tax revenues and the related amounts receivable and payable, as well as the allowance for doubtful accounts. In particular, estimates are made to determine personal and trust income tax revenues, corporate income tax revenues, non-resident tax withholdings, GST & HST revenues, Energy taxes, Other excise taxes and duties revenues, EI premiums, CPP contributions and the related amounts receivable and payable. Actual results could differ from the estimates and any difference would be recorded in the year the actual amounts are determined. The effect of changes to such estimates and assumptions in future periods could be significant. At the time of preparation of these statements, management believes the estimates and assumptions to be reasonable.

3. Amounts receivable from taxpayers

The following table presents details of the amounts receivable from taxpayers as reported in the Statement of Administered Assets and Liabilities. These amounts include related interest and penalties receivable. Amounts receivable from individuals and employers include Canada Pension Plan contributions and Employment Insurance premiums as applicable.

	2011			2010
	Gross	**Allowance for Doubtful Accounts**	**Net**	**Net**
		(in thousands of dollars)		
Income Taxes				
Individuals	43,207,124	(5,459,080)	37,748,044	35,377,626
Employers	16,659,191	(999,100)	15,660,091	14,251,133
Corporations	11,622,611	(1,752,663)	9,869,948	8,864,771
Non-Residents	988,027	(127,478)	860,549	1,040,339
GST/HST	14,181,245	(2,566,677)	11,614,568	6,900,659
Excise taxes and duties and miscellaneous charges	1,251,212	(45,262)	1,205,950	1,003,040
Total	**87,909,410**	**(10,950,260)**	**76,959,150**	**67,437,568**

Changes in the allowance for doubtful accounts are as follows:

	Allowance for Doubtful Accounts March 31, 2010	**Provision for Doubtful Accounts**	**Write-Offs**	**Allowance for Doubtful Accounts March 31, 2011**
		(in thousands of dollars)		
Income Taxes				
Individuals	(4,925,575)	(1,588,085)	1,054,580	(5,459,080)
Employers	(821,743)	(392,307)	214,950	(999,100)
Corporations	(1,849,061)	(360,703)	457,101	(1,752,663)
Non-Residents	(142,074)	(6,968)	21,564	(127,478)
GST/HST	(2,093,002)	(1,075,705)	602,030	(2,566,677)
Excise taxes and duties and miscellaneous charges	(32,148)	(28,613)	15,499	(45,262)
Total	**(9,863,603)**	**(3,452,381)**	**2,365,724**	**(10,950,260)**

The provision of $3,452 million ($2,936 million in 2010) reported above includes an amount of $3,344 million ($2,847 million in 2010) recorded as an expense administered on behalf of the federal government (see Note 2 (e)) and $108 million ($89 million) charged against expenses administered on behalf of the Canada Pension Plan.

4. Amounts receivable under the Tobacco civil settlements

On July 31, 2008, the federal and provincial governments entered into civil settlement agreements with two tobacco companies to resolve potential civil claims. Under the terms of the agreements, payments totalling $850 million are to be made to Canada, for Canada and the provinces. The federal government and provincial governments' share of this amount are $325 million and $525 million respectively. In accordance with the settlement agreements, the amounts receivable are expected to be fully paid by 2023. Up to $650 million is expected to be received in the first 10 years of the agreements and about $50 million in the following five years. These amounts are recorded at the nominal value.

The following table presents details of the amounts receivable related to the Tobacco civil settlement agreements:

	2011			2010		
	Government of Canada share	Provincial share	Total	Government of Canada share	Provincial share	Total
	(in thousands of dollars)					
Balance, beginning of year	314,900	332,911	647,811	324,900	375,000	699,900
Amounts received during the year	(35,900)	(23,684)	(59,584)	(10,000)	(42,089)	(52,089)
Balance, end of year	**279,000**	**309,227**	**588,227**	**314,900**	**332,911**	**647,811**

On April 13, 2010, the federal, provincial and territorial governments entered into civil settlement agreements with two other tobacco companies to resolve civil claims or potential civil claims. Under the terms of the agreements, payments totalling $325 million were made to Canada, for Canada, the provinces and Territories on the same day. The federal government and the provincial and territorial governments' share of this amount are $41 million and $284 million respectively. One of these companies also pleaded guilty in court to violation of the *Excise Act*, the fine imposed totalled $150 million. The other company pleaded guilty to a *Criminal Code* of Canada conspiracy and was fined $75 million. Both fines were paid to Canada on April 13, 2010. The federal revenues are included in Interest, penalties and other revenues (Note 12) and the provincial revenues are included in Other revenues (Note 14).

5. Amounts payable to taxpayers

The following table presents details of the amounts payable to taxpayers as reported in the Statement of Administered Assets and Liabilities:

	2011	2010
	(in thousands of dollars)	
Individuals	29,591,211	31,290,794
Corporations	9,795,864	10,670,363
GST/HST	9,133,614	6,195,418
Employers and Non-Residents	66,933	50,959
Excise taxes and duties and miscellaneous charges	59,501	47,079
Total	**48,647,123**	**48,254,613**

6. Amounts payable to provinces

The following table presents details of amounts payable to provinces as reported in the Statement of Administered Assets and Liabilities:

	2011	2010
	(in thousands of dollars)	
Provincial share of the Tobacco civil settlements	309,227	332,911
Softwood Lumber Products Export Charge net of costs incurred by the Federal Government	62,941	38,653
Amounts payable to Quebec:		
Personal income tax witholdings	202,631	239,426
GST refunds issued by Quebec	74,495	71,155
Nova Scotia worker's compensation	575	493
Ontario corporate tax and Opportunities Fund	619	2,601
Total	**650,488**	**685,239**

It should be noted that the Canada Revenue Agency is acting as an agent for the provinces under the Tobacco civil settlements. CRA's liability to the provinces for their expected share of the settlement amounts is limited to the amounts that will be ultimately collected from the tobacco companies.

Amounts payable to provinces, territories and other organizations, which are settled by other departments such as the Department of Finance for Provincial, Territorial, and First Nations taxes, are not recorded in these financial statements because these amounts are outside of the Agency's responsibility.

7. Deposit accounts

Deposit accounts are established to record cash and securities required to guarantee payment of GST as it relates to non-resident registrants and certain licensees as it relates to excise taxes, which are both payable pursuant to the *Excise Tax Act*. The following table presents activity on the deposit accounts as reported in the Statement of Administered Assets and Liabilities:

	2011	2010
	(in thousands of dollars)	
Balance, beginning of year	99,833	108,198
Receipts and other credits	33,626	29,752
Payments and other charges	(25,567)	(38,117)
Balance, end of year	**107,892**	**99,833**
Securities held in trust	(250)	(389)
Net deposit accounts	**107,642**	**99,444**

8. Net amount due to the Consolidated Revenue Fund

The net amount due to the Consolidated Revenue Fund (CRF) on behalf of the Government of Canada and others is the difference between administered assets (taxes not yet received and/or deposited in the CRF) and other administered liabilities payable by the Agency out of the CRF.

The net cash deposited in the CRF of the Government of Canada includes amounts received on behalf of the federal government, provinces, territories, and other organizations by the Agency and deposited in the CRF, less refunds and payments issued from the CRF during the year.

The change in the net amount due to the CRF during the fiscal year is presented in the table below:

	2011	2010
	(in thousands of dollars)	
Net amount due to the Consolidated Revenue Fund on behalf of the Government of Canada and others at the beginning of the year	23,956,671	24,038,214
Total net administered revenues and pension contributions	310,759,912	278,745,848
Total net administered expenses and recoveries	(20,464,477)	(15,904,839)
Net cash deposited in the Consolidated Revenue Fund of the Government of Canada	(279,691,610)	(262,922,552)
Net amount due to the Consolidated Revenue Fund on behalf of the Government of Canada and others at the end of the year	**34,560,496**	**23,956,671**

9. Contingent liabilities

Contingent liabilities include previously assessed taxes where amounts are under objection or are being appealed to the Tax Court of Canada, the Federal Court of Canada or the Supreme Court of Canada. As at March 31, 2011, an amount of $17,117 million was under objection at the Agency level ($17,102 million for 2010) and an amount of $3,299 million was being appealed to the courts ($3,509 million for 2010). The Agency has recorded, in the amounts payable to taxpayers or in reduction of the amounts receivable from taxpayers as applicable, the estimated amount of objections or appeals that are considered likely to be lost and that can be reasonably estimated.

10. Goods and Services Tax (GST) revenues

The GST reported on the Statement of Administered Revenues and Pension Contributions is net of Input Tax Credits (ITC), rebates, the provincial portion of HST and the GST quarterly tax credit for low income individuals and families administered by the Agency. It does not include GST revenues on imported goods of $18,228 million in 2011 ($16,247 million in 2010), which are administered and reported by the Canada Border Services Agency (CBSA). The Canada Revenue Agency has sole responsibility for the administration of all ITC including those claimed on imported goods. ITC relating to GST on imports are not accounted for separately from ITC relating to GST on domestic transactions.

The following table presents details of the GST revenues administered by the Agency for the Government of Canada as reported in the Statement of Administered Revenues and Pension Contributions:

	2011	2010
	(in thousands of dollars)	
GST revenues net of ITC	21,299,433	20,311,732
GST rebates	(5,925,091)	(4,795,474)
GST quarterly tax credits for low income individuals and families	(3,791,292)	(3,669,116)
GST net revenues	**11,583,050**	**11,847,142**

The amounts of GST net revenues reported above are net of receipts and disbursements resulting from the processing of GST returns. During the period, the Agency has processed $69,567 million in receipts ($44,384 million in 2010) and $62,051 million in disbursements and transfers ($32,529 million in 2010).

11. Miscellaneous charges

The following table presents details of miscellaneous charges administered by the Agency for the federal government as reported in the Statement of Administered Revenues and Pension Contributions:

	2011	2010
	(in thousands of dollars)	
Softwood Lumber Products Export Charge	233,126	227,202
Air Travellers Security Charge	600,078	374,468
Charge on Refund of Duty Deposits for Softwood Lumber	(35)	383
Total	**833,169**	**602,053**

12. Interest, penalties, and other revenues

Various tax legislation gives the Agency the authority, under certain conditions, to collect interest and penalties related to taxes due and regulations not met by taxpayers. The Agency has the authority to waive the interest and penalties that would normally be charged under certain circumstances such as Agency processing delays, financial hardship by taxpayers, or other extraordinary circumstances.

Other revenues consist of miscellaneous fees and charges such as court fines and administration charges for dishonoured payments instruments.

The following table presents details on interest, penalties and other revenues administered by the Agency for the federal government as reported in the Statement of Administered Revenues and Pension Contributions:

	2011	2010
	(in thousands of dollars)	
Gross interest and penalties	3,874,078	3,703,146
Interest and penalties waived under authority of the *Income Tax Act*	(121,307)	(233,264)
Net interest and penalties	3,752,771	3,469,882
Fines imposed under the *Excise Act*	237,948	11,214
Other revenues	37,529	3,623
Interest, penalties and other revenues	**4,028,248**	**3,484,719**

13. Provincial portion of Harmonized Sales Tax

The Province of Ontario and the Province of British Columbia announced on March 26, and July 23, 2009 respectively that they had entered into Comprehensive Integrated Tax Coordination Agreements with the Government of Canada to bring Ontario and British Columbia into the HST revenue allocation framework. In accordance with the agreements, the Agency started to administer the harmonized sales tax for these provinces on July 1, 2010. The Agency recorded the provincial portion of HST administered for the provinces of Ontario and British Columbia as well as Nova Scotia, New Brunswick and Newfoundland and Labrador, which already had HST agreements in place, in these financial statements in accordance with the accounting policies described at Note 2.

14. Other revenues

The following table presents details of other revenues administered by the Agency for Provincial and Territorial Governments and First Nations as reported in the Statement of Administered Revenues and Pension Contributions. Revenues that are directly paid or payable to the provinces as received by the CRA, such as the Tobacco civil settlement amounts and the Nova Scotia workers' compensation amounts, are flow-through collection activities rather than payments made under legislative authority. These amounts are included as administered revenue and then subsequently deducted from the Statement of Administered Revenues and Pension Contributions.

	2011	2010
	(in thousands of dollars)	
Tobacco civil settlements	284,000	-
Nova Scotia workers' compensation	242,300	230,279
Ontario Opportunities Fund	140	178
Total revenues paid or payable directly to provinces as received by the CRA	**526,440**	**230,457**
First Nations Sales Tax and GST	16,591	19,729
First Nations Income Tax	16,568	15,847
Total	**559,599**	**266,033**

15. Pension Contributions, Interest and Penalties Administered on behalf of the Canada Pension Plan

The following table presents details of the transactions administered by the Agency on behalf of the Canada Pension Plan (CPP) as reported in the Statement of Administered Revenues and Pension Contributions:

	2011	2010
	(in thousands of dollars)	
Pension contributions	37,033,112	36,195,676
Interest and penalties	144,244	170,168
Total	**37,177,356**	**36,365,844**

16. Related party transactions

The Agency is related in terms of common ownership to all Government of Canada departments, agencies, and Crown corporations. The Agency deposits all monies received to the CRF, the Department of Finance makes payments out of the CRF to provinces, territories, and other organizations for revenue amounts such as provincial, territorial, and First Nations taxes, for which the Agency administers the revenue collection process. Old Age Security benefit recoveries, Canada Pension Plan contributions, net of overpayments refunded by the Agency, and Employment Insurance premiums are credited to Human Resources and Skills Development Canada (HRSDC) which administers the Old Age Security program, the Canada Pension Plan, and the Employment Insurance Account. The Agency also administers a refund set-off program by which tax refunds of individuals may be used to pay debts owed by clients under federal, provincial or territorial programs.

The Agency provides collection services to CBSA under Part V.1 of the *Customs Act*. As well, the Agency provides to HRSDC collection services for certain accounts receivable under the *Canada Education Savings Act*, the *Canada Student Loans Act*, the *Canada Student Financial Assistance Act*, the *Canada Pension Plan* and the *Old Age Security Act*. The related payments are paid directly to either CBSA or HRSDC who are responsible for their deposits to the CRF, as well as their accounting and reporting. These payments are not recorded in the Agency's accounts.

Employment Insurance premiums administered on behalf of the Federal Government include the employer's share paid by the Federal Government. GST declared to the Agency includes the GST paid by the Federal Government to its suppliers on domestic purchases. GST collected by other Federal Government departments is deposited to the CRF, declared to the Agency, and are included in the GST domestic revenues.

17. Subsequent event

On August 26, 2011 the Province of British Columbia announced that it will return to the provincial sales tax. The impact, if any, on these financial statements is unknown at this time.

18. Comparative figures

Certain comparative figures have been reclassified to conform with the presentation used in the current year.

Financial Statements Discussion and Analysis – Administered Activities

Introduction

The Financial Statements – Administered Activities reflect the total assets and liabilities, tax and non-tax revenues, expenses and recoveries, and cash flows administered by the Canada Revenue Agency on behalf of the Government of Canada, provinces, territories, First Nations, and other government organizations. Tax revenues are recognized on an accrual basis and are net of the applicable deductions and credits allowed under various Acts.

Tax Revenues

The Canada Revenue Agency collects the majority of federal tax revenues. However, other agencies and departments, such as the Canada Border Services Agency, account for the balance of total federal revenues. For further information on revenue collected by the Government of Canada as a whole, please refer to the Annual Financial Report of the Government of Canada, available at www.fin.gc.ca/purl/afr-eng.asp.

Revenues Administered on Behalf of the Government of Canada

Federal Administered Revenues ($000)	**2010-2011**	**2009-2010**	**+/-**	**%**
Income Tax				
Personal and trust	113,571,844	104,053,792	9,518,052	9.1%
Corporate	29,969,047	30,361,042	(391,995)	-1.3%
Non-resident tax withholdings	5,136,798	5,293,543	(156,745)	-3.0%
	148,677,689	139,708,377	8,969,312	6.4%
Other Taxes, Duties and charges				
Goods and Services Tax	11,583,050	11,847,142	(264,092)	-2.2%
Energy Taxes	5,298,323	5,149,570	148,753	2.9%
Other Excise taxes and duties	3,301,658	3,066,948	234,710	7.7%
Miscellaneous charges	833,169	602,053	231,116	38.4%
	21,016,200	20,665,713	350,487	1.7%
Employment Insurance Premiums	17,862,454	17,120,840	741,614	4.3%
Interest, penalties, and other revenues	4,028,248	3,484,719	543,529	15.6%
Interest expense	(560,746)	(523,914)	(36,832)	7.0%
	21,329,956	20,081,645	1,248,311	6.2%
Net Revenues Administered on behalf of the Government of Canada	**191,023,845**	**180,455,735**	**10,568,110**	**5.9%**

Net revenues were $191.0 billion in 2010-2011, some $10.6 billion higher than in 2009-2010. All administered revenues were higher except Corporate Taxes, Non-Resident Tax Withholdings, Goods and Services Tax, and Interest expense.

Personal Income Tax

Personal Income Tax revenues increased by $9.5 billion, or 9.1%. The increase reflects economic growth and higher employment, along with the expiry of some tax credits associated with Canada's Economic Action Plan (Budget 2009).

Corporate Income Tax

Corporate Income Tax revenues decreased by $391.9 million or 1.3%. The decline in the tax rate and the impact of large one-time gains in 2009-2010 were mostly offset by an increase in corporate revenues.

Non-Resident Tax Withholdings

Non-Resident Tax Withholdings revenues decreased by $156.7 million or 3.0%. This decline stems from large reassessments of prior year revenues, partially offset by a growth in revenues from the current taxation year.

Goods and Services Tax

GST revenues decreased by $264.0 million or 2.2%. This resulted from an increase in Input Tax Credits claimed due to higher corporate investments in capital assets. This was mostly offset by an increase in gross GST revenues. On July 1, 2010, the Agency commenced the administration of PSTAR, leading to higher transfers and rebates.

Energy Taxes

Energy taxes increased by $148.7 million or 2.9%. This increase was due to a moderate growth in the consumption of gasoline and diesel fuel. The consumption of aviation fuel also grew in line with the strong growth in the airline sector.

Other Excise Taxes and Duties

Other Excise taxes and duties increased by $234.7 million or 7.7%. This increase is in line with the growth in tobacco production.

Miscellaneous Charges

Miscellaneous charges increased by $231.1 million or 38.4%. This reflected higher Air Travellers Security Charge revenues, which rose due to an increase in the rate as well as an increase in air travel.

Employment Insurance Premiums

Employment Insurance premiums increased by $741.6 million or 4.3%. This was in line with the growth in Source Deduction revenues due to higher employment, higher taxable income, and an increase in the maximum contribution ceiling.

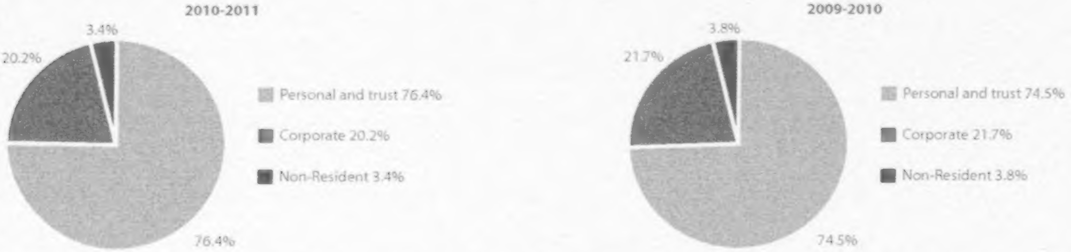
Interest, Penalties, and Other Revenues

Interest, penalties, and other revenues rose by $543.5 million or 15.6%. This was due to a settlement of court fines related to the tobacco settlement agreements, along with an increase in arrears balances. Prescribed interest rates were stable.

Interest Expense

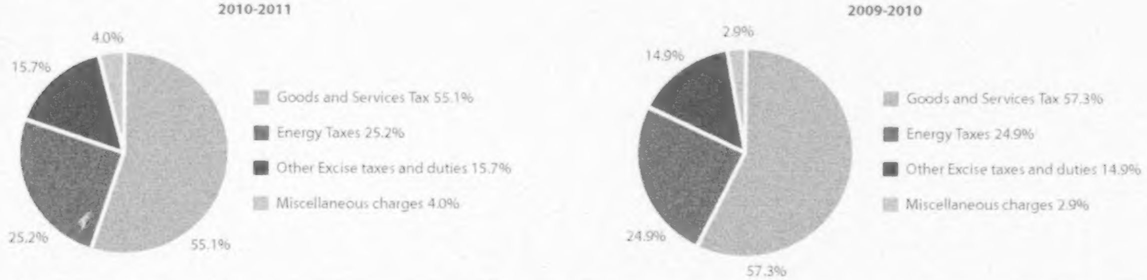
Interest expense rose by $36.8 million or 7.0%. This was due to higher interest paid on corporate refunds, partially offset by a reduction on interest paid on Personal Income Tax and GST refunds.

Figure 23 Direct Tax Revenues



As shown in Figure 23, the largest component of Direct Tax Revenues is Personal and Trust Income Tax, followed by Corporate Income Tax and Non-Resident Tax Withholdings.

Figure 24 Indirect Tax Revenues



As shown in Figure 24, the largest component of Indirect Tax Revenues is GST, followed by Energy taxes, Other Excise taxes and duties, and Miscellaneous charges. The proportion of GST has declined due to the decrease in net GST assessed and the strong growth in Energy taxes and Miscellaneous charges.

Revenues Administered on Behalf of the Provincial, Territorial Governments, First Nations, and the Canada Pension Plan

Provincial and Territorial Governments, First Nations, and Canada Pension Plan ($000)	**2010-2011**	**2009-2010**	**+/-**	**%**
Income Tax – Personal and trust	48,021,244	47,045,448	975,796	2.1%
Income Tax – Corporate	12,810,324	11,930,666	879,658	7.4%
Harmonized Sales Tax	21,693,984	2,912,579	18,781,405	644.8%
Other Revenues	559,599	266,033	293,566	110.3%
Revenues Administered on behalf of Provincial and Territorial Governments and First Nations	**83,085,151**	**62,154,726**	**20,930,425**	**33.7%**
Pension Contributions, Interest and Penalties Administered on Behalf of the Canada Pension Plan	**37,177,356**	**36,365,844**	**811,512**	**2.2%**

Provincial, Territorial, and First Nations Revenues were $83.0 billion in 2010-2011, some $20.9 billion higher than in 2009-2010. Canada Pension Plan Revenues were $37.2 billion in 2010-2011; $811.5 million more than in 2009-2010.

Income Tax Revenues – Personal and Trust

Personal Income Tax revenues increased by $975.8 million, or 2.1%. The increase reflects economic growth as well as higher employment, partially offset by tax reductions announced in many 2009 provincial budgets.

Income Tax Revenues – Corporate

Corporate Income Tax revenues increased by $879.7 million or 7.4%. This increase is due to higher corporate profits, partially offset by corporate tax cuts in Ontario and British Columbia. Prior year losses from large corporate taxpayers had little impact on provincial Corporate Income Tax as they pertained to taxation years prior to the introduction of the corporate tax harmonization in Ontario.

Harmonized Sales Tax (HST)

HST revenues increased by $18.8 billion. The increase was due to the implementation of harmonized sales tax for Ontario and British Columbia on July 1, 2010, along with a rate increase in Nova Scotia. This was partially offset by an increase in provincial rebates, also associated with the PSTAR implementation. On August 26, 2011 the Province of British Columbia announced that it will return to the provincial sales tax. The transition period is expected to take a minimum of 18 months. During this period, the Agency will continue to administer the HST in British Columbia.

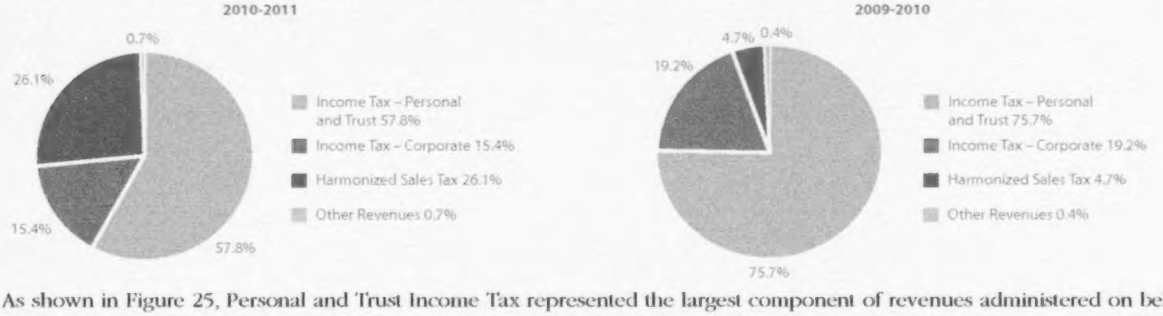
Other Revenues

Other revenue increased by $293.6 million or 110.3%, and is related to the tobacco civil settlement agreements.

Revenues Administered On Behalf of the Canada Pension Plan

Canada Pension Plan revenues rose by $811.5 million or 2.2%. The increase is in line with the growth in Source Deduction revenues due to higher employment, higher taxable income, and an increase in the maximum contribution ceiling.

Figure 25 Revenues Administered on behalf of the Provincial and Territorial Governments and First Nations



As shown in Figure 25, Personal and Trust Income Tax represented the largest component of revenues administered on behalf of the Provincial and Territorial governments, and First Nations. This is followed by Harmonized Sales Tax and Corporate Income Tax. The proportion of Personal Income Tax decreased dramatically from the previous year, due to the implementation of harmonized sales tax in Ontario and British Columbia on July 1, 2010.

Expenses and Recoveries Administered on Behalf of the Government of Canada, Provincial, and Territorial Governments

Administered Expenses and Recoveries ($000)	**2010-2011**	**2009-2010**	**+/-**	**%**
Federal Administered Expenses				
Child tax benefits	10,013,367	9,752,506	260,861	2.7%
Universal child care benefits	2,642,485	2,587,264	55,221	2.1%
Children's special allowances	222,438	215,264	7,174	3.3%
Transfers to provinces for softwood lumber products export charges	220,735	205,545	15,190	7.4%
Provision for doubtful accounts	3,344,307	2,847,076	497,231	17.5%
Other	9	529	(520)	-98.3%
Total Federal Administered Expenses	16,443,341	15,608,184	835,157	5.4%
Federal Administered Recoveries				
Old Age Security benefits	(1,061,615)	(954,785)	(106,830)	11.2%
Employment Insurance Benefits	(224,929)	(217,963)	(6,966)	3.2%
Total Federal Administered Recoveries	(1,286,544)	(1,172,748)	(113,796)	9.7%
Net Expenses and Recoveries Administered for the Federal Government	15,156,797	14,435,436	721,361	5.0%
Provincial and Territorial Administered Expenses				
Ontario sales tax transition benefit	2,619,861	-	2,619,861	N/A
Family benefit programs	1,063,553	921,234	142,319	15.4%
Ontario senior homeowners' property tax grant	199,828	183,226	16,602	9.1%
British Columbia low income climate action tax credit	167,663	157,601	10,062	6.4%
Sales tax credits	1,146,406	112,077	1,034,329	922.9%
British Columbia climate action dividend	2,296	5,958	(3,662)	-61.5%
Net Expenses Administered for Provinces and Territories	5,199,607	1,380,096	3,819,511	276.8%
Provision for doubtful accounts Administered for the Canada Pension Plan	108,073	89,307	18,766	21.0%
Total Net Administered Expenses and Recoveries	**20,464,477**	**15,904,839**	**4,559,638**	**28.7%**

Net Federal Expenses and Recoveries were $15.2 billion in 2010-2011, $721.4 million higher than in 2009-2010. Net Provincial and Territorial Expenses were $5.2 billion, $3.8 billion higher than in 2009-2010.

Federal Administered Expenses

Federal Administered Expenses rose by $835.2 million or 5.4%. This resulted from a higher allowance for doubtful accounts (ADA) and an increase in child tax benefits (CTB). The growth in the provision for doubtful accounts was due to higher arrears and a moderate increase in the ADA rate. The growth in CTB was due to the indexation of benefits and improvements to the Child Disability Benefit, in accordance with the changes announced in the 2009 Budget.

Federal Administered Recoveries

Federal Administered Recoveries rose by $113.8 million or 9.7%. This largely resulted from higher Old Age Security (OAS) recoveries, due to a rise in the number of OAS benefit recipients and higher income reported.

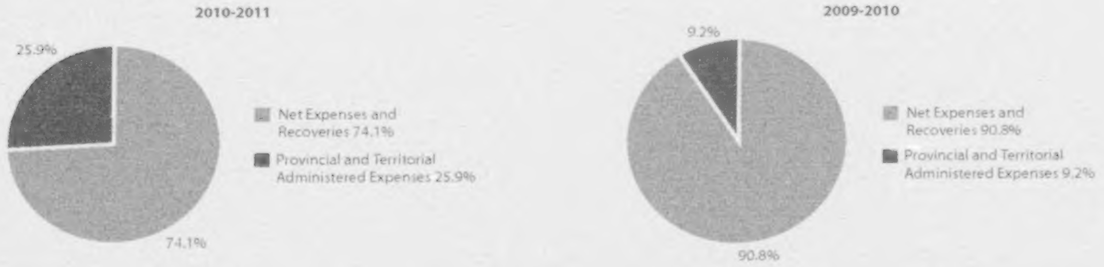
Net Expenses Administered for Provinces and Territories

Net Expenses Administered for Provinces and Territories increased by $3,819.5 million or 276.8%. This increase was due to the implementation of the Ontario Sales Tax Transition Benefit, the Ontario Sales Tax Credit, and the British Columbia Sales Tax Credit.

Provision for Doubtful Accounts Administered for the Canada Pension Plan

The provision for doubtful accounts administered for the Canada Pension Plan increased by $18.8 million or 21.0%. This increase was due to higher arrears.

Figure 26 Expenses and Recoveries Administered on Behalf of the Government of Canada, Provincial, and Territorial Governments



As shown in Figure 26, Net Expenses and recoveries administered for the Federal Government made up most of the Expenses and Recoveries administered on behalf of the Government of Canada, Provincial, and Territorial Governments. The proportion of Federal Administered Expenses and Recoveries has fallen due to the implementation of the Ontario Sales Tax Transition Benefit, the Ontario Sales Tax Credit, and the British Columbia Sales Tax Credit.

Summary of the assessment of effectiveness of the systems of internal control over financial reporting and the action plan of the Canada Revenue Agency

Fiscal year 2010-2011

Annex to the Statement of Management Responsibility Including Internal Control Over Financial Reporting.

Note to the reader

With the Treasury Board Policy on Internal Control, effective April 1, 2009, departments and agencies are now required to demonstrate the measures they are taking to maintain an effective system of internal control over financial reporting (ICFR).

As part of this policy departments are expected to conduct annual assessments of their system of ICFR, establish action plans to address any necessary adjustments, and to attach to their Statements of Management Responsibility a summary of their assessment results and action plan.

Effective systems of ICFR aim to achieve reliable financial statements and to provide assurances that:

- Transactions are appropriately authorized;
- Financial records are properly maintained;
- Assets are safeguarded from risks such as waste, abuse, loss, fraud and mismanagement; and
- Applicable laws, regulations and policies are followed.

It is important to note that the system of ICFR is not designed to eliminate all risks, rather to mitigate risk to a reasonable level with controls that are balanced with and proportionate to the risks they aim to mitigate.

The maintenance of an effective system of ICFR is an ongoing process which involves identifying key risks, assessing the effectiveness of associated key controls and adjusting them as required, as well as monitoring the system in support of continuous improvement. As a result, the scope, pace and status of departmental assessments of the effectiveness of their systems of ICFR will vary from one organization to another based on risks and taking into account their unique circumstances.

The annual assessment of ICFR contemplated in the Treasury Board (TB) Policy on Internal Control is intended to be a management self-assessment led and administered by the Chief Financial Officer and supported by senior management. However, key external audit findings and results can inform this self-assessment. In the case of the CRA, changes to Federal-Provincial Tax Collection Agreements (TCAs) that took effect starting with the 2004 tax year introduced a new audit provision requiring the Auditor General to periodically perform a review of the adequacy of CRA's internal controls relevant to the annual financial statements provided under the TCAs, the results of which are reported to provincial and territorial finance Ministers. In fulfilment of these requirements, the Office of the Auditor General (OAG) audits, periodically, those aspects of the CRA's self-assessment of ICFR that are relevant to the TCAs. The portion of CRA's ICFR that is subject to audit under the TCAs and the results of the controls audits performed to date by the OAG are explained and described in Sections 3 and 4 of the Annex.

1. Introduction

This document is attached to the CRA's Statement of Management Responsibility Including Internal Control Over Financial Reporting for the fiscal year 2010-2011. As required by the TB Policy on Internal Control, effective April 1, 2009, this document provides summary information on the measures taken by the CRA to maintain an effective system of ICFR. In particular, it provides summary information on the assessments conducted by the CRA as of March 31, 2011, including progress, results and related action plans along with some financial highlights pertinent to understanding the CRA's unique control environment.

1.1 Authority, Mandate and Program Activities

The CRA's mandate is based upon a framework of complex laws enacted by Parliament and by provincial and territorial legislatures. To fulfil its mandate the CRA administers a range of tax, benefits and related programs aimed at ensuring that taxpayers meet their obligations and receive their entitlements and at protecting Canada's tax base. For more detailed information on the CRA's authority, mandate and program activities, please refer to the Overview section of the Annual Report on page 13 or the CRA's Report on Plans and Priorities http://www.tbs-sct.gc.ca/rpp/2011-2012/inst/nar/nar00-eng.asp. Information on the expenses and revenues related to the CRA's operations and activities can also be found in the Public Accounts of Canada http://www.tpsgc-pwgsc.gc.ca/recgen/txt/72-eng.html.

1.2 Financial highlights

The CRA's key results for fiscal-year 2010-2011 are as follows:

Agency Activities

- Total expenses of $4,606 million, 74% of which is personnel expenses.
- Total assets and liabilities of $793 million and $1,068 million respectively. Capital assets comprise 68% of the Agency's total assets. Employee severance benefits comprise about 59% of total liabilities and accounts payable and accrued liabilities comprise about 16%.

Administered Activities

- Total administered revenues of about $311 billion, comprised of $191 billion in revenue administered under tax and other related federal legislation on behalf of the Government of Canada, $83 billion in revenue administered on behalf of provincial, territorial and First Nations governments under various Memoranda of Understanding and similar arrangements, and $37.2 billion in revenue administered on behalf of the Canada Pension Plan.
- Total payments of about $20.5 billion in benefits and credits administered under benefit programs and services on behalf of the Government of Canada and provincial and territorial governments.

Responsibility for delivering CRA's mandate is shared by program branches and corporate functions located at headquarters and within regional operations across Canada including at 48 Tax Services Offices and 7 Tax Centres. The CRA's Information Technology (IT) capacity is critical to its ability to deliver services to Canadians and involves the support of two data centres that process up to 4.5 million transactions per hour, five mainframe computers, about 1,400 servers and maintenance of over 450 national business applications across a distributed computing environment covering more than 400 locations.

The Agency's Finance and Administration (F&A) Branch supports the delivery of CRA programs and services by providing sound advice, products, and services related to a number of key functions including financial administration, resource management, security, internal affairs, and administration. It also helps ensure compliance and accountability with related legislation, policies, and directives. F&A activities are performed by a team of almost 3,000 employees, about 30% of whom are located in headquarters and 70% of whom are located in the regions. This team is integral to the effectiveness of CRA's system of control over financial reporting, which encompasses two sets of financial statements - one for Agency Activities and one for Administered Activities. Also of importance to financial reporting, in particular in relation to Administered Activities, are many of the procedures carried out as part of regional or headquarters operations, such as collection, data entry and processing of income tax returns, as well as a majority of the system applications in use at the CRA. This makes CRA's task of scoping, documenting and assessing the related controls uniquely challenging.

1.3 Audited financial statements

As noted above, for financial reporting purposes, the activities of the Agency have been divided into two sets of financial statements: Agency Activities and Administered Activities. The Agency Activities financial statements include those operational revenues and expenses which are managed by the Agency and utilized in running the organization. The Administered Activities financial statements include those revenues and expenses that are administered for someone other than the Agency, such as the federal government, a province or territory, or another group or organization.

The CRA has issued annual audited financial statements since 1999-2000 and has consistently received a clean audit opinion from the Auditor General of Canada.

1.4 Service arrangements relevant to financial statements

1.4.1 CRA reliance on other government service providers:

The CRA relies on other organizations for the processing of certain transactions that are recorded in its financial statements.

Common Arrangements

- Public Works and Government Services Canada (PWGSC) centrally administers salary payments and looks after such items as calculation of general pay, payroll deductions, security over pay information, and automatic retroactive adjustments through the Regional Pay System (RPS),
- Treasury Board Secretariat (TBS) provides the CRA with information used to calculate various accruals and allowances such as the accrued severance liability,
- the Department of Justice provides legal advisory, litigation and legislative services to the CRA, and
- the Office of the Auditor General of Canada (OAG) provides auditing services to the CRA.

Specific Arrangements

- The Ministère du Revenu du Québec is responsible for the joint administration of the goods and services tax (GST) and Québec Sales Tax for businesses in the Province of Quebec.

1.4.2 CRA services upon which other departments and agencies rely:

Specific Arrangements

- The CRA provides IT services in relation to the Canada Border Services Agency's operational financial system.

1.5 Significant changes in fiscal-year 2010-2011

- Starting for fiscal year 2010-2011 the CRA implemented a separate Capital Vote in order to segregate its capital budget and expenditures from its operating budget and expenditures when seeking spending authority from, and reporting to, Parliament. This involved changes to systems and procedures to project, fund, code and monitor capital costs separately.
- In December 2009, the CRA decided to move the Chief Risk Officer responsibilities from the CFO and Assistant Commissioner, F&A and to create a new, independent Chief Risk Officer position reporting directly to the Commissioner. Following that decision, in June 2010, Mr. Brian Philbin was appointed to the new position and a separate branch was created to deliver the re-defined Enterprise Risk Management (ERM) function.
- Effective July 1, 2010 the Ontario and the British Columbia provincial sales tax (PST) and the federal GST were replaced by a single harmonized sales tax (HST) which is administered by the CRA. Preparing to meet the new HST business requirements involved modifying and in some cases expanding CRA business processes and IT infrastructure. However, on August 26, 2011 the Province of British Columbia announced that it will return to the PST. The transition period is expected to take a minimum of 18 months. During this period, the Agency will continue to administer the HST in British Columbia.
- In December 2010 the CRA Board of Management approved the five new CRA policies listed below which support the CRA Policy Framework for Financial Management and Corporate Finance. Four of the five new policies flow from the TB financial management policy suite, while the Policy on Financial Administration, established further to the authority over general administrative policy granted to the CRA under the *Canada Revenue Agency Act*, covers financial entitlements to compensate individuals for expenses incurred while conducting CRA business (e.g., travel and hospitality).
  - Policy on Financial Management Governance
  - Policy on Internal Financial Control
  - Policy on Stewardship of Financial Management Systems
  - Policy on Financial Resource Management, Information and Reporting
  - Policy on Financial Administration
- On December 3, 2010 Mr. Filipe Dinis, Deputy Assistant Commissioner, F&A, assumed the duties of CFO and Assistant Commissioner on an acting basis. Mr. Dinis was permanently appointed to this position on January 27, 2011.

2. CRA's control environment relevant to ICRF

The CRA recognizes the importance of setting the tone from the top to help ensure that staff at all levels understand their roles in maintaining an effective system of ICFR and are well equipped to exercise these responsibilities effectively. The CRA's focus is to ensure risks are managed well through a responsive and risk-based control environment that enables continuous improvement and innovation.

2.1 Key positions, roles and responsibilities

Below are the CRA's key positions and committees with responsibilities for maintaining and reviewing the effectiveness of its system of ICFR.

Commissioner – The Commissioner and Chief Executive Officer (CEO) of the CRA, as Accounting Officer, assumes overall responsibility and leadership for the measures taken to maintain an effective system of internal control. In this role, the Commissioner chairs the Agency Management Committee, sits on the CRA Board of Management, and attends meetings of the Audit Committee.

Chief Financial Officer (CFO) – The Chief Financial Officer (CFO) reports directly to the Commissioner and provides leadership for the coordination, coherence and focus of efforts to design and maintain an effective and integrated system of ICFR, including its annual assessment. In this role the CFO chairs the CRA CEO/CFO Certification Steering Committee and attends meetings of the Audit Committee.

CEO/CFO Certification Steering Committee – The CEO/CFO Certification Steering Committee, which is chaired by the CFO and composed of Assistant Commissioners with significant responsibility for ICFR including the Chief Information Officer, the Chief Audit Executive and Assistant Commissioner, Corporate Audit and Evaluation Branch and the Chief Risk Officer, is responsible for reviewing the progress and results of CRA's ICFR assessment process and approving action plans to address significant control issues.

Audit Committee of the Board of Management – The Audit Committee assists the Board of Management (the Board) in fulfilling its oversight responsibilities by reviewing the Agency's accounting framework, financial and performance information, internal controls and financial risks, and compliance with financial and environmental legislation. On the recommendation of the Audit Committee, the Board approves the Agency's annual financial statements. The Commissioner, the CFO, and the Chief Audit Executive and Assistant Commissioner, Corporate Audit and Evaluation Branch, as well as a representative of the Office of the Auditor General (OAG) each attend Audit Committee meetings. The Audit Committee was established in 1999 and is comprised of five external members all of whom are independent of the CRA.

Agency Management Committee – As the sole decision-making Committee in the Agency, the Agency Management Committee oversees program development and delivery, as well as the day-to-day business operations of the Agency and all associated risks. The Agency Management Committee reviews, approves and monitors the Corporate Risk Profile.

Chief Audit Executive – The Chief Audit Executive and Assistant Commissioner, Corporate Audit and Evaluation Branch reports directly to the Commissioner and provides, through an effective internal audit function, independent and objective assurance on the CRA's risk management, internal control and governance practices. In this role, the Chief Audit Executive is a member of the CEO/CFO Certification Steering Committee and attends meetings of the Audit Committee.

Chief Risk Officer – The Chief Risk Officer and Assistant Commissioner of the Enterprise Risk Management Branch reports directly to the Commissioner and oversees the Agency's ERM function designed to provide sound risk information for use in decision-making at the corporate, operational, and project levels.

Internal Controls Division – The Internal Controls Division within the F&A function supports the CRA's efforts to design and maintain an effective and integrated system of ICFR by, in collaboration with IT and business process control owners, documenting and testing the adequacy of ICFR and reporting results to the CEO/CFO Certification Steering Committee, the Commissioner and the Audit Committee of the Board including, if applicable, information on action plans to strengthen controls.

2.2 Key measures taken by the CRA

The CRA also helps to ensure the effectiveness of its control environment in mitigating financial reporting risks by promoting ethical conduct and through its commitment to competence, its governance and organization structure, its ERM function, and its systems and processes that help ensure relevant information is communicated to appropriate individuals accurately and on a timely basis. Key elements and activities are described below.

Control Environment

- Building and maintaining awareness of the CRA Code of Ethics and Conduct .
- Formalizing management's commitment to values and ethics via the performance management system.
- Providing mechanisms that help ensure appropriate action is taken in response to violations of the Code.
- A competency-based human resources management system that develops and promotes employees based on competencies identified as crucial to organizational success, including in the area of financial management.
- A formal Learning Policy that outlines specific roles and responsibilities of senior management, managers and employees in relation to employee development.
- An annual Individual Learning Plan process through which employees work with their managers to identify training opportunities for the upcoming year, linked to job requirements and competency development.
- A well established succession planning process for executive positions.
- An organizational structure and accountability regime that clearly set out reporting relationships and the assignment of authority and responsibility including for the initiation and approval of transactions.
- Establishment of yearly performance agreements for executives, based on guidelines aligned with Corporate Business Plan (CBP) priorities and deliverables including in relation to financial management.
- An independent and knowledgeable audit committee that is actively involved in overseeing the Agency's ICFR.

Risk Management

- An integrated ERM function led by the Chief Risk Officer who reports directly to the Commissioner/CEO that provides the corporate view of risks to support effective decision-making and fosters a risk management culture within the Agency.
- An annual strategic planning process that links strategic initiatives and priorities to the Corporate Risk Profile.
- An annual corporate planning process which establishes, documents and communicates entity-level objectives and priorities and aligns the Agency's activities and budget allocations with them.
- The Resource Investment Management Committee that oversees the management and progress of major project investments including the identification, monitoring and management of internally and externally driven risks.

Information Systems and Communication

- Monthly financial reports and analyses (for budget projections and for revenues and expenditures) that are reviewed and approved by senior management.
- Quarterly financial reports and analysis reviewed by the Agency Management Committee and the Board.
- A formal IT Strategy that guides IT development and maintenance, updated annually to help ensure continued support for the achievement of the strategies and priorities outlined in the CBP, including in relation to financial management.
- An annual application sustainability assessment to identify and manage application sustainability risks by setting system-by-system priorities for modernization.
- Interaction between the CRA F&A Branch and TBS, Department of Finance and OAG officials to ensure that emerging accounting issues and developments are identified and suitably addressed.
- The Internal Disclosures Office within the Corporate Audit and Evaluation Branch which provides a confidential channel through which employees can disclose wrongdoing.

Monitoring

- The Internal Controls Division within the F&A Branch tasked with providing those charged with governance with assurance that suitably designed ICFR are in place in the Agency and operating effectively.
- Monitoring units within the F&A function, both at headquarters and at regional offices, that are responsible for monitoring transactions, both for Agency Activities (e.g., payroll) and Administered Activities (e.g., Personal (T1) income tax returns), to help ensure that risks to accurate financial reporting are suitably mitigated.
- An internal audit function that provides professional, independent and objective information, advice and assurance on the soundness of the Agency's management framework and on the effectiveness, efficiency, and economy of the Agency's strategies, systems, programs and practices.
- Presentation of internal audit recommendations and management action plans to the Management Audit and Evaluation Committee, chaired by the CRA Commissioner and to the Audit Committee.
- An annual follow-up process to monitor management's progress in implementing action plans responding to external and internal audit recommendations including in relation to financial reporting.

3. Assessment of CRA's system of ICFR

The CRA's financial statements have been audited, as required under the *Canada Revenue Agency Act*, by the Office of the Auditor General (OAG), for eleven years. In parallel, the Audit Committee of the Board and CRA senior management have been providing increased oversight of the preparation and presentation of financial information including review of information regarding the design and adequacy of its system of ICFR with the objective of obtaining greater assurance that significant financial reporting risks are being properly mitigated.

In addition, revised federal-provincial Tax Collection Agreements (TCAs) that took effect starting with the 2004 tax year introduced new audit provisions requiring reports to be provided periodically to provincial and territorial finance Ministers on the results of Auditor General audits of the adequacy of CRA's internal controls relevant to the annual financial statement provided under the TCAs. The OAG and CRA agreed that the new audit engagement would be according to the Canadian Institute of Chartered Accountants Handbook (CICA HB) Section 5970 standard (Auditor's Report on Controls at a Service Organization), a new standard introduced in 2005 in recognition of the dramatic increase in outsourcing and use of service organizations including for the provision of varied and complex services.

These new reports are aimed at providing provincial and territorial governments and their auditors with independent, audit-level assurance that the controls at the CRA supporting the administration and reporting of provincial and territorial income tax revenue are properly designed to mitigate key risks and are operating effectively. The reports are intended for the specific use of provincial and territorial ministries with primary responsibility for income tax and their auditors; they are not public documents. To date CRA has issued two Section 5970 reports, both relating to the design and implementation of all key controls relating to the Corporation Income Tax Program (T2) as at a specific point in time. The third report covers the design and implementation of all key controls relating to the Personal Income Tax Program (T1) as at November 30, 2010.

The audits of ICFR that the OAG performs periodically in fulfilment of TCA requirements are a significant source of information on the state of CRA's system of ICFR for its Administered Activities financial statements; however, they have a limited scope insofar as they only cover processes and systems involved in reporting on income tax assessed. They exclude certain of the CRA's Administered Activities related to other revenue streams (e.g., GST, Excise Taxes and Duties) and certain significant accounts that, while not relevant to amounts payable under TCAs, are important aspects of the CRA's financial information for Administered Activities (e.g., Accounts Receivable and the Allowance for Doubtful Accounts). As explained in subsection 3.2 below, the CRA's approach to assessing its ICFR for Administered Activities, for purposes of the Policy on Internal Control, will encompass key control aspects falling outside TCA-related assessment and audit requirements.

3.1 Assessment baseline

The CRA's assessment of ICFR involves first the assessment of design effectiveness to help ensure that all key controls relevant to its financial information have been properly identified, documented, and implemented and that they are aligned with the risks they aim to mitigate. Management will take action to address any areas of concern appropriately and in a timely manner. Once the CRA has verified the design effectiveness of its controls, it will assess operating effectiveness by testing the operation of controls over a defined period of time to determine whether they are working as intended. Management will take action to strengthen controls if needed. Testing of design and operating effectiveness will lead eventually to ongoing monitoring according to which the CRA's repository of controls will be re-assessed on a multi-year, rotational basis according to risk, including consideration of any new financial reporting risks that have emerged since the last assessment.

CRA's assessment covers the following three major categories of controls:

- Entity Level Controls: the controls and management practices across an entity that, when taken together, comprise the core organizational management control framework. Among these controls are the "tone from the top" including the organization's culture, values and ethics, governance, transparency and accountability mechanisms as well as the activities and tools put in place across the organization to raise staff awareness, ensure clear understanding of roles and responsibilities and solid capacities and abilities in managing risks well. These controls constitute a critical component of an organization's system of internal control as they have a pervasive effect on the organization and can have significant consequences for the overall assessment of the effectiveness of ICFR.
- IT General Controls: the umbrella controls over the computer environments that support relevant business processes and related applications. Given how data moves between multiple business groups and IT systems on its way from initial transactions to the financial reports it is important that management obtains assurance regarding the processes and controls over the IT systems and databases that house, move, and transform this data. Key controls in specific IT applications that support financial data and transactions are typically addressed at the business process level.
- Business Process Controls: the controls that help mitigate the financial reporting risks associated with relevant procedures that take place in the organization's business units. Management must identify the business units and business processes (manual and automated) that handle transactions that impact significant accounts and related assertions, identify the risks that could reasonably result in a material misstatement and evaluate the adequacy of the controls, policies, procedures and validities that are in place to mitigate each of the identified risks.

3.2 Scope of CRA assessment as of March 31, 2011

Scope

In order to define the scope of its ICFR assessment, the CRA examined the main accounts and line items used in the preparation of its two sets of financial statements to determine where there are risks that, individually or in combination with others, could reasonably result in a material misstatement (financial reporting risks). Items at a higher risk were then mapped to the related business processes which were in turn risk rated and used to determine the key applications and systems to be included in the scope of the assessment.

Based on this analysis, the CRA determined the scope of its assessment to include controls related to financial reporting within the following business processes:

Agency Activities Financial Statements:

Business Process	Risk Rating
Financial Close and Reporting	High
Fixed Assets	High
Payroll	Medium
Operating Expenditures (Procurement to Pay)	Medium
Budgeting and Projections	Low

Administered Activities Financial Statements[6]**:**

Business Process	Risk Rating
T1 Personal Income Tax	High
T2 Corporation Income Tax	High
T3 Trust Income Tax	High
Non-resident Income Tax	High
Goods and Services Tax (GST) / Harmonized Sales Tax (HST)	Medium
Source Deductions	Medium
Excise Taxes and Duties	Medium

Control Frameworks

The CRA uses the Committee of Sponsoring Organizations (COSO) framework to assess the design effectiveness of its system of internal controls, since it is the most widely used and recognized model of control for purposes of assessing ICFR. The COSO framework is based upon five interrelated components of control, each of which contains a number of principles and attributes against which an organization's ICFR may be assessed: Control Environment, Risk Assessment, Control Activities, Information Systems and Communication, and Monitoring.

Because COSO only provides limited guidance to assist organizations in establishing and evaluating IT controls, the CRA uses the COBIT (Control Objectives for Information and related Technology) for SOX (*Sarbanes-Oxley Act of 2002*)[7] framework to document and assess the design of its IT controls of relevance to financial reporting. COBIT for SOX identifies three control areas for review when assessing the adequacy of controls over the key applications and systems involved in the organization's financial reporting:

COBiT for SOX Control Areas	Complexity Rating
Access to Programs and Data • Logical Security • Physical Security	High
Systems Implementation and Maintenance • Application and Database Changes • Systems Software • Network Support	High
Computer Operations • Interface / job monitoring • Back-ups and recovery	Medium

4. Progress and assessment results as of March 31, 2011

This section summarizes the CRA's key assessment results from the design and operating effectiveness testing completed to date.

4.1 Design effectiveness of key controls

Agency Activities Financial Reporting

In 2010-2011, the CRA completed an assessment of the design effectiveness of its key controls related to financial reporting on Agency Activities. This review included key controls over the five business processes in scope (Payroll, Fixed Assets, Operating Expenditures, Budgeting and Projections, and Financial Close and Reporting) as well as relevant application controls and IT general controls, including for:

- The Corporate Administrative System (CAS), the CRA's SAP-based Enterprise Resource Planning system which is the financial system of record at the CRA.

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[6] For purposes of assessing controls over the Administered Activities Financial Statements the CRA is only covering those processes associated with generating high and medium risk rated financial balances.

[7] Because most financial reporting processes are now driven by IT systems, ISACA (Information Systems Audit and Control Association) and its research affiliate, the IT Governance Institute (ITGI), developed COBIT for SOX to provide guidance on the design and evaluation of IT controls for the purposes of financial reporting objectives and ICFR.

- Synergy (Ariba), the Agency's e-procurement tool used to manage the purchasing life cycle.
- The Budget Tracking System designed to manage the Agency's financial resources from an internal (budgeting) and central agency (Estimates) perspective.

Based on this review CRA management determined that a number of its controls related to access management, segregation of duties and certain review and monitoring activities could be improved and established action plans to make the necessary adjustments. As a lessons learned exercise, the CRA also performed selected operating effectiveness testing of controls over Agency Activities financial reporting. The CRA is using the results of this work to plan and perform more comprehensive testing in order to evaluate the operating effectiveness of these controls for the 2011-2012 period.

Administered Activities Financial Reporting

In 2010-2011, the CRA self-assessed the design effectiveness of certain of its business process controls over financial reporting on the Personal Income Tax Program (T1 Program) and of the application controls and IT general controls related to the key information systems involved in processing T1 transactions. Close to 60 information systems were reviewed in total. The Agency used the results to prepare a description of the design of these controls as at November 30, 2010 which was then submitted to the OAG for audit as per TCA requirements.

Based on the T1 self-assessment and OAG audit, CRA management determined that improvements are needed to the design of certain of its controls involved in the processing of non-routine assessments and reassessments, the management of systems changes and in relation to management of user access and proper segregation of duties.

In 2008, the CRA self-assessed the design effectiveness of certain of its business process controls over the Corporation Income Tax Program (T2 Program) and of the application controls and IT general controls related to the key information systems involved in processing T2 transactions. The Agency used the results to prepare a description of the design of these controls as at November 30, 2008 which the OAG audited in 2009, as per TCA requirements. In response to the findings of the self-assessment and OAG audit, CRA management took steps to improve controls over management of legislative and systems changes and over management of privileged user access as well as to strengthen procedures for managers' semi-annual review of employee access privileges and for facilitating proper segregation of duties.

In 2011-2012, the CRA plans to self-assess the operating effectiveness of these T2 controls, document the results, and, further to the TCA audit provisions, engage the OAG to perform an audit in order to provide an independent opinion on the operating effectiveness of these controls over a six-month period.

4.2 Operating effectiveness of key controls

From February to September 2009 F&A led an exercise to assess the operating effectiveness of the CRA's entity level controls (ELCs) relevant to both the Agency Activities financial statements and the Administered Activities financial statements. Key activities included:

- interviews with CRA senior officials to understand and identify and corroborate the key ELCs;
- documentation of key ELCs using the COSO control framework as a starting reference and customizing the framework as needed to reflect the Agency's environment; and,
- review of supporting documentation and a sample of processes to substantiate and demonstrate the design effectiveness and, where applicable, the operating effectiveness of the controls.

This initial assessment indicated that the CRA has a strong system of controls at the entity level, that most of these controls are operating effectively and that all relevant control objectives within the COSO framework are being achieved. While several potential opportunities for improvement were observed and were discussed by management there were no significant gaps identified.

In 2010-2011 F&A conducted a risk-based assessment of the operating effectiveness of these controls both for purposes of the OAG's audit of the design of CRA's controls over financial reporting on the T1 program under the TCAs and for purposes of the Statement of Management Responsibility including ICFR for the 2010-2011 financial statements. This assessment revealed that the CRA continues to have a strong system of ELCs.

5. CRA's Action Plan

This section summarizes how CRA is addressing the results of 2010-2011 control assessment activities and its plans for completing the assessment of the design and operating effectiveness of its system of internal control.

5.1 Progress as of March 31, 2011

Agency Activities Financial Reporting

In 2010-2011, in response to the results of the design effectiveness and the selected operating effectiveness testing performed, CRA management identified and partially completed a number of corrective measures to strengthen controls over Agency Activities financial reporting. These measures include greater restriction or segregation of access to perform certain transactions, introduction of new directives to clarify and reinforce responsibilities and accountability for role definition and management, and improved documentation of review and monitoring activities for audit trail purposes.

Administered Activities Financial Reporting

In 2010-2011 the CRA mostly completed its plans to strengthen controls over management of legislative and systems changes and over access management in response to the findings of the OAG's 2009 audit of the design of T2 controls relevant to TCAs. In addition, the CRA made substantial progress in developing action plans in response to preliminary findings from the 2011 OAG audit of the design of T1 controls relevant to TCAs. These preliminary findings indicated the need to strengthen certain of the controls involved in the processing of non-routine assessments and reassessments, the management of systems changes and access management.

5.2 Action plan for the next fiscal year and subsequent years

Entity Level Controls

The CRA's assessment efforts to date have revealed that the CRA has a strong and effective system of ELCs that constitutes an important component of the Agency's ICFR for both Agency Activities and Administered Activities. Because maintaining public trust is crucial to the fulfilment of its mandate, in 2011-2012 the CRA will continue with the implementation of its new Integrity Framework, comprised of policy instruments, programs, and processes designed to reinforce a culture of integrity by more systematically engaging management and staff in preventing, monitoring, detecting and managing breaches that put employees, assets, information and revenues at risk. Given the significance of ELCs for the overall assessment of the effectiveness of ICFR, the CRA will continue to monitor them annually based on risk to obtain assurance regarding their continued effectiveness.

Agency Activities Financial Reporting

The CRA's plan for 2011-2012 is to substantially complete action plans to strengthen the design of controls where required and to complete the assessment of the operating effectiveness of all key ICFR for Agency Activities. Once it is confirmed that these ICFR are operating effectively, the CRA plans to move to an annual monitoring program to track and test changes to these controls and to perform other testing on a selective basis according to risk. This approach will allow the CRA to focus efforts on areas requiring re-testing based on feedback from business and IT control owners regarding changes that have occurred during the period and on higher risk areas.

Administered Activities Financial Reporting

In 2011-2012 the CRA plans to substantially complete action plans developed to address issues from the 2009 OAG audit related to design effectiveness of controls over the T2 program and the 2011 audit related to the design effectiveness of controls over the T1 program.

The CRA plans to build on the progress achieved in documenting and assessing the design effectiveness of its controls over both T1 and T2 financial reporting in support of TCA audit requirements, by completing assessments of the operating effectiveness of these controls starting with the T2 program in 2011-2012. As noted above, the CRA plans to engage the OAG to conduct an audit of the operating effectiveness of T2 controls over a six-month period. The OAG's report will be in accordance with the new Canadian Standard on Assurance Engagements (CSAE) 3416, which has replaced the CICA HB Section 5970 standard and is effective starting with reporting periods ending in 2011.

The approach and timing for assessing the operating effectiveness of controls over the T1 Program as well as for assessing both the design and operating effectiveness of the ICFR for the remainder of the CRA's Administered Activities including IT general controls and application level IT controls will depend on a number of factors including:

- plans currently under development to re-design the business processes and systems related to the T1 Program,
- significant shifts in the Agency's program delivery agenda (e.g., if the CRA assumes responsibility for the implementation and administration of new federal, provincial, territorial or First Nations tax, benefit or credit programs),
- reductions to the Agency's approved program spending levels due to Strategic and Operating Review or other government-wide restraint measures, or

- other developments that exert significant pressure on program and IT staff's time and capacity.

In 2011-2012 CRA management will evaluate the level of effort involved in completing the assessment of the operating effectiveness of its system of internal control and will establish a suitable timeline. This timeline will be examined at a minimum annually in order to confirm the feasibility of the key deliverables and to take into account new information on financial reporting risks.

The table below provides an overview of CRA's plans for completing its assessment and moving to a program of ongoing monitoring.

Processes in Scope	Document	Assess Design Effectiveness	Assess Operating Effectiveness	On-going Monitoring
Agency Activities	Completed 2009-2010	Completed 2010-2011	To be completed 2011-2012	Planned 2013-2014[1]
Administered Activities:				
T1 Personal Income Tax ICFR relevant to TCAs[2]	Completed 2009-2010	Completed 2010-2011	As per 2011-2012 analysis[3]	As per 2011-2012 analysis[3]
T2 Corporation Income Tax ICFR relevant to TCAs[2]	Completed 2007-2008	Completed 2009-2010	To be completed 2011-2012	As per 2011-2012 analysis[3]
Remaining T1 and T2 ICFR	As per 2011-2012 analysis[3]			
T3 Trust Income Tax[2]				
Non-Resident Income Tax				
Goods and Services Tax / Harmonized Sales Tax				
Excise Taxes and Duties				
Source Deductions				

[1] Timing for the on-going monitoring of ICFR for Agency Activities depends on the results of the 2011-2012 operating effectiveness assessment and any action plans established in response to these results.

[2] ICFR related to tax assessed are audited by the Office of the Auditor General in fulfilment of audit requirements in federal-provincial Tax Collection Agreements (TCAs); ICFR related to tax accruals and cash receipts are not subject to OAG audit.

[3] In 2011-2012 F&A, in consultation with management responsible for relevant business processes and with management in the Information Technology Branch as well as with input from external stakeholders such as provincial and territorial revenue ministry officials and the Office of the Auditor General, will analyse and prioritize the work required to complete the assessment of the operating effectiveness of all key ICFR for the CRA's Administered Activities and will establish a plan for 2012-2013 and beyond to complete this work. Certain variables, including the factors listed and described above, may impact the CRA's ability to complete this work as planned and necessitate adjustments to timelines.

Canada Revenue Agency – Unaudited Supplementary Financial Information

Financial Performance Information – Parliamentary Appropriations

Introduction

This section of the *CRA Annual Report to Parliament 2010-2011* provides the details of the Agency's resource management performance for the purpose of reporting to Parliament on the use of appropriations in 2010-2011. This complements the information provided in the spending profile sections under each Program Activity and satisfies the reporting requirements set for departmental performance reports.

Financial reporting methodologies

The CRA's funding is provided by Parliament through annual appropriations (modified cash accounting basis) and, in this section, the CRA reports its expenditures and performance to Parliament, together with details on the management of Parliamentary appropriations on the same basis. In addition to the above reporting requirements, the CRA is also required to prepare its annual financial statements in accordance with the accounting principles applied in preparing the financial statements of the Government of Canada (full accrual accounting basis). Accordingly, the audited Statement of Operations - Agency Activities on page 116 includes certain items such as services received without charge from other government departments and federal agencies. A reconciliation can be found in Note 3 on page 122.

CRA financial information

Activities of the Agency

Canada Revenue Agency	**2010-2011** *(in thousands of dollars)*
Main Estimates[1]	4,476,430
Planned Spending[2]	4,523,527
Total Authorities[3]	4,596,714
Actual Spending	4,418,566

[1] Spending authorized by Parliament at the beginning of the fiscal year.

[2] Main Estimates authorities plus other amounts anticipated to be authorized during the fiscal year.

[3] Total spending authorized by Parliament during the fiscal year.

The Financial Statements - Agency Activities reports $3,975.4 million as total Parliamentary appropriations used (Note 3 on page 122 shows the reconciliation to the net cost of operations). The difference from the $4,418.5 million reported in this section is explained by two items reported in the Financial Statements - Administered Activities: the statutory disbursements to provinces under the *Softwood Lumber Products Export Charge Act*, 2006, $220.7 million; and the Children's Special Allowance payments, $222.4 million.

Overview

For 2010-2011, Parliament approved $4,476.4 million through the Main Estimates, as shown in the CRA's *2010-2011 Report on Plans and Priorities*.

The 2010-2011 Main Estimates were adjusted to include:

- $150.3 million for the carryforward from 2009-2010;
- $82.5 million for maternity and severance payments;
- $57.8 million for the implementation of Harmonized Sales Tax for Ontario and British Columbia and the Affordable Living Tax Credit for Nova Scotia;
- $49.3 million for additional employee benefits plan costs;
- $32.4 million for various collective agreements increases;
- $18.2 million for increased Respendable Revenue mainly to provide services to the Canada Border Services Agency;
- $15.0 million for the implementation of various tax measures announced in the 2010 Federal Budget;
- $8.2 million for the Government advertising campaigns;
- $4.0 million for Court Awards and Crown Assets Disposal; and
- $2.3 million for the Financial Interoperability and Stewardship Initiative in support of the Corporate Administrative Systems.

These increases were offset by the following reductions:

- $258.3 million due to a modification to the original estimate of disbursements to provinces under the *Softwood Lumber Products Export Charge Act, 2006*;
- $24.3 million due to delays in proposed amendments to the *Income Tax Act* related to foreign investment entities and non-resident trusts;
- $14.1 million transferred to Public Works and Government Services Canada to adjust charges related to accommodation and real property services;
- $2.5 million for statutory Children's Special Allowance payments;
- $0.3 million due to a reduction in the budget for the Office of the Minister; and
- $0.2 million transferred to the Treasury Board Secretariat to support the National Managers' Community.

This resulted in total approved authorities of $4,596.7 million for 2010-2011, representing an in-year increase of 2.7% over the Main Estimates.

Of the $4,596.7 million total authority, CRA's actual spending totalled $4,418.5 million resulting in $178.2 million remaining unexpended at year-end. After deducting unused resources related to Government advertising campaigns, the remaining $178.0 million is available for use by the Agency in 2011-2012 under its statutory two-year spending authority. This amount represents 3.9% of the total authority.

The Agency's two-year spending authority enables the CRA to be more strategic in its use of public funds by taking a multi-year view of plans and budgets. The financial flexibility in 2010-2011 was somewhat higher than usual due to restraint measures introduced by the CRA during the latter half of the fiscal year in response to the Operating Budget freeze implemented by the Government in Budget 2010. This increased carryforward was part of the Agency's strategy to address unfunded operating pressures in 2011-2012, including previously approved salary increases for employees.

Revenues administered by the Agency

Total revenues administered by the CRA amount to some $311 billion in 2010-2011, an increase of 11.5% from the $279.0 billion administered in 2009-2010.

	2009-2010	**2010-2011**
	(in thousands of dollars)	
Federal Government	180,455,735	191,023,845
Provincial, Territorial Governments and First Nations	62,154,726	83,085,151
Canada Pension Plan	36,365,844	37,177,356
Total	**278,976,305**	**311,286,352**

Financial Performance Tables

Introduction

The following tables provide financial information about the performance of the Agency during the 2010-2011 fiscal year. The tables compare Main Estimates and Planned Spending, as shown in the *2010-2011 Report on Plans and Priorities*, with total authorities at year-end and actual expenditures for the fiscal year.

The information is presented at the Agency level, the Program Activity level, as well as by authority and type of revenue and expense.

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  Authorities approved after Main Estimates 172

The following tables can be found on the Treasury Board of Canada Secretariat web site at:
http://publiservice.tbs-sct.gc.ca/dpr-rmr/2010-2011/index-eng.asp.

- Sources of Respendable and Non-Respendable Non-Tax Revenue
  - Respendable Non-Tax Revenue
  - Non-Respendable Non-Tax Revenue
- User Fees/External Fees
  - *User Fees Act* – Advance Income Tax Ruling Fee
  - Policy on Service Standards for External Fees – Advance Income Tax Ruling Fee
  - *User Fees Act* – Taxation Statistical Analyses and Data Processing Fee
  - Policy on Service Standards for External Fees – Taxation Statistical Analyses and Data Processing Fee
  - *User Fees Act* – Access to Information Processing Fee
  - Policy on Service Standards for External Fees – Access to Information Processing Fee
- Details on Project Spending
- Details on Transfer Payment Programs
  - Children's Special Allowance Payments (Statutory)
  - Disbursements to Provinces under the *Softwood Lumber Products Export Charge Act, 2006* (Statutory)

Performance Summary

(in thousands of dollars)		2010-2011			
Program activity	2009-2010 Actual	Main Estimates	Planned Spending	Total Authorities	Actual
Strategic Outcome: Taxpayers meet their obligations and Canada's revenue base is protected					
Taxpayer and Business Assistance[1]	531,371	735,259	737,413	565,844	**551,883**
Assessment of Returns and Payment Processing[2]	690,835	601,180	601,629	718,608	**683,036**
Accounts Receivable and Returns Compliance	529,982	430,682	430,854	521,215	**511,567**
Reporting Compliance	1,092,367	930,771	963,013	1,094,533	**1,071,359**
Appeals	148,009	127,157	128,975	168,247	**164,065**
Strategic Outcome: Eligible families and individuals receive timely and correct benefit payments					
Benefit Programs[3]	342,440	335,478	335,478	373,805	**369,838**
The following Program Activity supports all strategic outcomes within the organization					
Internal Services[4]	1,068,803	1,312,654	1,322,917	1,150,865	**1,064,087**
Strategic Outcome: Taxpayers and benefit recipients receive an independent and impartial review of their service-related complaints					
Taxpayers' Ombudsman	2,741	3,248	3,248	3,595	**2,730**
Total	**4,406,548**	**4,476,430**	**4,523,527**	**4,596,714**	**4,418,566**
Less:					
Non-Tax Revenues					
Respendable Revenue –Pursuant to Section 60 of the *Canada Revenue Agency Act*	213,920	226,894	226,894	245,118	**245,118**
Non-Respendable Revenue	55,676	N/A	58,286	N/A	**59,670**
Plus:					
Cost of services received without charge	269,188	N/A	273,172	N/A	**261,489**
Net Cost of Agency	**4,406,140**	**N/A**	**4,511,519**	**N/A**	**4,375,267**

Note: Numbers may not add due to rounding

[1] Includes the Softwood Lumber statutory disbursements ($205.5 million in 2009-2010 and $220.7 million in 2010-2011).

[2] Includes payments to the Ministère du Revenu du Québec for the administration of the Goods and Services Tax in that province ($148.4 million in 2009-2010 and $142.2 million in 2010-2011).

[3] Includes a) Relief for Heating Expenses (program announced in 2000) ($500.0 thousand in 2009-2010 and $4.0 thousand in 2010-2011); b) Energy Costs Assistance Measures expenses (program announced in the Fall of 2005) ($21.2 thousand in 2009-2010 and $4.7 thousand in 2010-2011); and c) Statutory Children's Special Allowance payments ($215.3 million in 2009-2010 and $222.4 million in 2010-2011).

[4] For planning purposes, the budget for real property accommodations is shown in Internal Services, however, at year-end the actuals are attributed to all other programs activities.

Voted and Statutory Items

	(in thousands of dollars)	**2008-2009**	**2009-2010**	**2010-2011**	
	Truncated Vote or Statutory Authority Wording	**Actual**	**Actual**	**Main Estimates**	**Actual**
1	Operating expenditures, contributions and recoverable expenditures on behalf of the *Canada Pension Plan* and the *Employment Insurance Act*	3,154,525	3,297,434	2,992,673	**3,170,640**
5	Capital expenditures and recoverable expenditures on behalf of the *Canada Pension Plan* and the *Employment Insurance Act*	-	-	136,085	**89,496**
(S)	Minister of National Revenue – Salary and motor car allowance	76	78	79	**78**
(S)	Spending of revenues received through the conduct of its operations pursuant to Section 60 of the *Canada Revenue Agency Act*	219,585	213,920	226,894	**245,118**
(S)	Contributions to employee benefit plans	419,900	469,401	416,700	**466,012**
(S)	Children's Special Allowance payments	211,848	215,264	225,000	**222,438**
(S)	Payments to private collection agencies pursuant to section 17.1 of the *Financial Administration Act*	9,067	3,286	-	**2**
(S)	Payments under the *Energy Costs Assistance Measures Act*	489	13	-	**5**
(S)	Statutory disbursements to Provinces under the *Softwood Lumber Products Export Charge Act, 2006*	180,495	205,545	479,000	**220,735**
(S)	Spending of proceeds from the disposal of Surplus Crown Assets	785	111	-	**196**
(S)	Court Awards	1,886	1,496	-	**3,840**
(S)	Prior Year Refunds				**7**
	Total Agency	**4,198,656**	**4,406,548**	**4,476,430**	**4,418,566**

Note: numbers may not add due to rounding.

Authorities approved after Main Estimates

The following table details the additional authorities approved for the Agency after the tabling in Parliament of Main Estimates and reconciles with the Total Authorities shown on page 170.

	(in thousands of dollars)
2010-2011 Main Estimates	**4,476,430**
Collective bargaining and salary contract increases	44,423
Financial Interoperability and Stewardship Initiative in support of the Corporate Administrative Systems	2,268
Employment Insurance – Extending Special Benefits to the Self Employed	406
Planned Spending (as reported in the Report on Plans and Priorities)	**4,523,527**
Carryforward from 2009-2010	150,326
Severance Pay, Parental Benefits and Vacation Credits	82,458
Implementation of Harmonized Sales Tax for Ontario and British Columbia and the Affordable Living Tax Credit for Nova Scotia	57,788
Respendable Revenue adjustment primarily for information technology services provided to Canada Border Services Agency	18,224
Implementation of various tax measures announced in the 2010 Federal Budget	15,000
Government advertising programs	8,170
Court Awards	3,840
Crown Assets Disposals	196
Payments under the *Energy Costs Assistance Measures Act*	5
Modification to the original estimate of disbursements to provinces under the *Softwood Lumber Products Export Charge Act, 2006*	(279,000)
Delays in proposed amendments to the *Income Tax Act* related to Foreign Investment Entities and Non-Resident Trusts	(24,343)
Transfer to Public Works and Government Services Canada to adjust charges related to accommodation and real property services	(14,099)
Impact of 2009 and 2010 Budget on various Collective Agreements	(4,598)
Reduction in the budget of the Office of the Minister	(282)
Transfer to Treasury Board Secretariat to support the National Managers' Community	(200)
Year-end adjustments to statutory authorities:	
Employee Benefit Plan contributions	41,520
Disbursements to provinces under the *Softwood Lumber Products Export Charge Act, 2006*	20,735
Children's Special Allowance payments	(2,562)
Other minor adjustments	9
Total Authorities at year-end[1]	**4,596,714**

[1] Numbers may not add due to rounding.

If you need more information, email us at: **annual.report@cra-arc.gc.ca** or write to:

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